S. HRG. 99-757

POSSIBLE NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

S. 1860, S. 1837 AND S. 1865

MAY 14, 1986

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POSSIBLE NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS

WEDNESDAY, MAY 14, 1986

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Dole, Roth, Heinz, Symms, Grassley, Long, Moynihan, and Baucus.

[The press release announcing the hearing, the opening statement of Senator Grassley, and the background material follow:]

[Press Release]

COMMITTEE ON FINANCE SETS HEARINGS ON TRADE ISSUES RAISED BY S. 1860

Senator Bob Packwood (R-Oregon), Chairman of the Committee on Finance, announced today the scheduling of four hearings of the Subcommittee on International Trade on May 13, 14, and 15, 1986. Senator John C. Danforth (R-Missouri), Chairman of the Finance Committee's Subcommittee on International Trade will preside at these hearings. All the hearings will be held in Room SD-215 of the Dirksen Senate Office Building.

Senator Packwood noted that a number of important issues are raised by S. 1860, sponsored by Senators Danforth, Moynihan, Dole, Bradley and others. This series of hearings will afford an opportunity to examine the merits of S. 1860 and other bills which share its themes, Chairman Packwood stated.

Ambassador Clayton Yeutter, the United States Trade Representative, will testify at the May 14, 1986 hearing, which begins at 9:30 a.m. This hearing will concentrate on a possible new round of multilateral trade negotiations, including authorization for such negotiations contained in S. 1865, sponsored by Senators Baucus, Symms, Bradley and others, and S. 1837, sponsored by Senator Bentsen and others.

SENATOR CHARLES E. GRASSLEY

STATEMENT

NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS

MAY 14,1986

MR. CHAIRMAN:

I COMMEND YOU FOR HOLDING A SERIES OF HEARINGS THIS WEEK ON CRITICAL ISSUES RELEVANT TO SOLVING OUR TRADE IMBALANCE.

I WAS PLEASED THAT THE SEVEN BIGGEST INDUSTRIAL COUNTRIES AGREED AT THEIR MEETING IN TOKYO TO THE EARLY LAUNCH OF A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS... UNDER THE AUSPICES OF THE GATT... TO HALT THE GROWTH OF PROTECTIONISM AND TO LIBERALIZE TRADE. HOWEVER, I AM SOMEWHAT SKEPTICAL, GIVEN THE TIME FRAME FOR THESE TALKS, THAT THE PREPARATORY COMMITTEE WILL BE ABLE TO MEET ITS JULY 15TH DEADLINE. BY THAT DATE, THEY MUST AGREE ON A TEXT AND RESOLVE THE TWO ISSUES WHICH ARE POTENTIAL STUMBLING BLOCKS: THAT OF INCORPORATING TRADE IN AGRICULTURAL GOODS INTO THE GATT SYSTEM, AND HANDLING THE SITUATION OF TRADE IN TEXTILES AND CLOTHING WHERE GATT PRINCIPLES HAVE BEEN SUBVERTED.

WHILE I AM NOT OPPOSED TO A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS, I AM CONCERNED ABOUT WHETHER WE ARE PREPARED TO ENTER INTO SUCH NEGOTIATIONS AT THIS TIME. HOPEFULLY, AMBASSADOR YEUTTER WILL GIVE ME SUFFICIENT REASSURANCE TO LAY THIS CONCERN ASIDE TODAY.

MR. CHAIRMAN, THERE ARE UNMISTAKABLE SIGNS IN THE UNITED STATES OF A DEVELOPING CRISIS OF CONFIDENCE IN THE SYSTEM. THIS CRISIS IS REFLECTED IN THE PAST YEAR BY THE MOUNTING PRESSURE IN THE UNITED STATES FOR IMPORT RESTRICTIONS OF FOREIGN MADE TEXTILES, CLOTHING, SHOES, STEEL, ELECTRONIC PRODUCTS AND AUTOMOBILES WHICH HAVE BEEN PENETRATING OUR MARKET. WE SEE A GROWING DEMAND FOR RETALIATION AGAINST FOREIGN MEASURES WHICH PLACE AMERICAN AGRICULTURE AND OTHER PRODUCTS AT A DISADVANTAGE IN MARKETS ABROAD. OVERHANGING THESE DOUBTS AND FRUSTRATIONS IS THE BELIEF THAT WE LACK THE SENSE OF PRIORITIES AND THE ORGANIZATION TO DEAL EFFECTIVELY IN OUR FOREIGN ECONOMIC RELATIONS, AND THAT THE RESPONSIBILITIES IN THE EXECUTIVE BRANCH HAVE BEEN UNCLEAR, AUTHORITY FRAGMENTED AND THAT CONGRESS AND THE PRIVATE SECTOR HAVE NOT BEEN ADEQUATELY BROUGHT INTO THE POLICY-MAKING PROCESS.

THE QUESTION WE MUST ASK OURSELVES TODAY IS: HOW DO WE RESPOND TO SUCH INEQUITIES IN THE SYSTEM. HOPEFULLY, IT WILL BE THROUGH A NEW GATT ROUND IN WHICH ALL THE COUNTRIES OF THE WORLD WILL AGREE TO A SET OF RULES THAT WILL BE EFFECTIVE IN KEEPING THE TRADING SYSTEM IN TACK. CLEARLY, THE TIME HAS COME TO TAKE STOCK OF WHERE WE ARE AND WHERE WE WANT TO GO.

ONCE AGAIN MR. CHAIRMAN, I THANK YOU FOR HOLDING A HEARING ON THIS LEGISLATION...S.1865... AND I LOOK FORWARD TO THE TESTIMONY OF AMBASSADOR YEUTTER.

BOB PACKWOOD, OREGON, CHAIRMAN
BOB DOLE, KANSAS
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JOHN H. CHAFEE, RHODE ISLAND
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DAVID PRYOR, ARKANSAS

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510

WILLIAM DIEFENDERFER, CHIEF OF STAFF
WILLIAM J. WILKINS, MINORITY CHIEF COUNSEL

MEMO

TO: FINANCE COMMITTEE MEMBERS

FROM: FINANCE COMMITTEE TRADE STAFF
(LEN SANTOS x4-5472)

SUBJECT: MAY 14, 1986 HEARING ON A POSSIBLE NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS

The Subcommittee on International Trade will hold a hearing on May 14, 1986 on a possible new round of multilateral trade negotiations. The hearing will begin at 10:00 a.m. in SD-215 of the Dirksen Senate Office Building. A witness list is attached.

I. Historical Background.

The Tokyo Round of the Multilateral Trade Negotiations (MTN), the seventh held under the provisions of the General Agreement on Tariffs and Trade (GATT), grew out of the efforts by a number of countries shortly after the end of the Kennedy Round of Trade Negotiations in 1967. Those negotiations, though successful in substantially reducing tariffs on industrial products by developed countries, did not deal with the growing practice of adopting nontariff measures to restrict or distort trade. United States participation in the Tokyo Round of the MTN was formally authorized by the Trade Act of 1974. At the time the Trade Act of 1974 was submitted to Congress in 1973, the President had been without agreement authority since July of 1967. This was the longest lapse of such authority to enter into trade agreements and to reduce tariffs since enactment of the Reciprocal Trade Agreements Act in 1934.

The Tokyo Round began formally in 1973 with substantive negotiations starting in January 1975. In the early stage of negotiations, work was concentrated on multilateral codes addressing nontariff barriers. Intensive bilateral bargaining on tariff and agricultural concessions did not start until January 1978. Throughout 1978 and early 1979, hundreds of bilateral negotiating sessions were held in Geneva and numerous consultations took place in the capitals of the countries involved. On April 12, 1979, the Tokyo Round was concluded in substance, with the acceptance by the heads of key delegations of the documents embodying the results of the negotiations. During the following months, delegations sought definitive approval by their governments, while discussions continued on relatively minor, unresolved issues and on technical corrections of the documents.

On December 17, 1979, the United States and other key countries signed or accepted the agreements on subsidies, antidumping, licensing, products standards, meat, dairy, government procurement, customs evaluation, and civil aircraft. U.S. signature of the procurement and customs evaluation codes was conditional. Other countries also attached conditions or reservations to some of their acceptances. All codes became effective January 1, 1980, except for the government procurement and customs valuation codes which became effective January 1, 1981. The United States and the European Community implemented the valuation code on July 1, 1980.

The Tokyo Round of the MTN significantly reduced tariffs on industrial and nonindustrial products of both developed and developing countries. The developed countries reduced their tariffs about one-half of the then current rates. In the three largest U.S. export markets, the European Community, Canada, and Japan, combined reduction averaged over 40 percent.

The Trade Agreements Act of 1979 approved and implemented the trade agreements negotiated by the United States under the Trade Act of 1974 in the Tokyo Round of the MTN. The legislation authorized a number of changes in U.S. trade law which were necessary to implement such agreements.

One of the changes made by the 1979 Trade Agreements Act was to extend to January 3, 1988 the President's authority to enter into trade agreements to harmonize, reduce or eliminate nontariff barriers on goods and services, including those adversely affecting the U.S. economy and preventing fair and equitable access to supplies. The President's authority to enter into such agreements eliminating tariff barriers has expired, except in the case of bilateral agreements the negotiation of which is entered into pursuant to procedures specified in the Trade Act of 1974.

II. Time Table of a New Round

The formal preparatory process for a new round of multilateral trade negotiations was initiated by the GATT Contracting Parties (CPs) during their November 25-29, 1985 annual meeting when the CPs adopted by concensus a decision to establish a Preparatory Committee for the new negotiations.

The CPs decision established as the mandate for the Preparatory Committee the determination of objectives, subject matter, modalities for and participation in multilateral trade negotiations. The Preparatory Committee met in Geneva for the first time the week of January 27, 1986 and will prepare a report by mid-July 1986 for adoption at the Ministerial Meeting to be held in Punta Del Este, Uruguay beginning September 15, 1986. The Preparatory Committee is open for particiaption by any member of the GATT (ninety), countries currently negotiating accession to the GATT and countries which have declared their intention to acceed to the GATT. Most observers expect the new round to take several years before agreements can be reached.

III. U.S. Objectives in a New Round

A. Dispute Settlement

As part of the new negotiations, the United States will seek some specific improvements in the procedures of the dispute settlement process to ensure that countries have every opportunity to resolve their differences in a timely manner through consultation, mediation or arbitration. In those cases where the two countries choose a panel to make recommendations on how to resolve the dispute, the United States wants to ensure that non-governmental panelists can be chosen, that strict time limits are set for each phase of the panel process, and that the panel reports contain clear and concise recommendations for action.

B. Safeguards

The term safeguards refers to the emergency actions taken by governments to protect domestic industries from an influx of imports, thereby giving them time to adjust to competition. This issue has been identified as an issue for priority treatment in the new round, in part because it is a concern of developing countries, and in part because of widespread concern that most current safeguard practices have little to do with the disciplines of the GATT. In fact, the GATT Secretariat staff has identified some 94 safeguard-type actions taken outside the relevant GATT provisions.

In the new negotiations, the United States seeks to develop a comprehensive agreement over the use of all safeguard actions, including voluntary restraint agreements and orderly marketing arrangements. Our major objectives are to ensure that such measures are transparent, remain temporary, and contribute to--not retard--adjustment, without shifting the burden of that adjustment on to other trading countries.

C. Agriculture

The United States seeks to eliminate export subsidies and tear down the multiple barriers to agricultural import markets in both developed and developing countries.

D. Tokyo Round Nontariff Barrier Codes

The Tokyo Round effort to negotiate meaningful international disciplines over nontariff barriers was not perfectly satisfactory. The United States will try to build on the experience with the codes over the past six years, expand participation, update certain provisions, and strengthen and improve their operation. Particular attention will be given to the government procurement, aircraft and subsidies codes.

E. Market Access

While the primary focus of the new negotiations will be on developing rules and disciplines over trade policies and practices, the United States expects that there will also be some of classical swapping of concessions to reduce tariff and nontariff barriers to trade.

F. Intellectual Property

The GATT has already undertaken work with respect to trademark counterfeiting. THe United States favors completion of this work, but it is only a small part of the larger problem. Deficiencies in protection of patents and copyrights, and protection for new and evolving technologies also will be addressed.

G. Investment

The United States will want to address government investment policies that have a strong dampening and

distorting impact on world trade. The trade effects of these measures are comparable to those created by tariffs and nontariff barriers, such as quantitative restrictions.

H. Services

The United States will be seeking agreement under the auspices of the GATT on a framework of principles and procedures that would make trade in services as open as possible. This recognizes the fact that services is the fastest growing segment of our economy and is likely to continue to be so in the future.

I. State Trading

The United States will seek to make operational and enforceable the GATT rule requiring state trading to be in accordance with commercial considerations. Trading by enterprises controlled or owned by governments plays an increasingly important role in international trade.

IV. Summary of S. 1865

A. Section 101. Purposes

Section 101 sets forth the purposes of S. 1865. They are: (1) to enhance economic growth and employment, (2) to reduce and eliminate barriers to trade on a reciprocal basis, (3) to strengthen economic relations with foreign countries through an open and fair international trading system, and (4) to establish, improve and enforce international trading rules providing fair and equitable trading relations.

B. Section 102. Negotiating Authority.

Section 102 amends section 102 of the 1974 Act to provide the President with authority to enter into trade agreements with foreign countries providing for the reduction or elimination of trade barriers or other distortions during the five-year period beginning on January 3, 1988.

A trade agreement may be entered into under the authority of this section only upon 150 days prior written notice to, and consultation with, the Congress. The 150-day prior written notice must include descriptions of the negotiating objectives and that will and will not be met by the agreement. Agreements negotiated pursuant to the 150-day notice will be subject to fast-track legislative approval unless the Committees on Finance and Ways and Means have specifically disapproved of the negotiations within 60 days of notification by the President, and only if the President has, at least 90 days before entering into such agreement, informed the Congress of his intent to do so and submitted to the Congress draft implementing legislation and a statement of why the implementing legislation and a statement of why the implementing legislation and any proposed Administrative action are required or appropriate to carry out the agreement.

C. Section 103. Interim Trade Agreements.

Section 103 amends section 103 of the 1974 Act to require that, upon initiating negotiations with foreign

countries for the purpose of entering into an agreement, the President shall seek to obtain interim agreements prohibiting the imposition of new barriers to trade and permitting market forces to govern the growth of industries characterized by overcapacity or overproduction.

D. Section 104. Negotiating Objectives.

Section 104 amends section 104 of the 1974 Act by deleting all references to sector negotiating objectives and substituting three "overall objectives" and two "principal objectives".

The "overall negotiating objectives" are to obtain -

(1) more open, fair and equitable market access;

(2) the reduction or elimination of barriers or other trade distorting practives; and

(3) an appropriate overall balance between benefits and concessions with the agricultural, manufacturing, mining and service sectors.

The first "principal negotiating objective" is to obtain competitive opportunities for United States exports equivalent to the competitive opportunities afforded foreign exports in United States markets.

The second "principal negotiating objective" is to bring trade agreements previously entered into into conformity with principles promoting development of open, nondiscriminatory

and fair world economic system. This includes, but is not limited to:

(1) ensuring timely and decisive resolution of GATT disputes,

(2) ensuring that similar rules apply to the treatment of primary and nonprimary products under the Subsidies Code,

(3) defining and disciplining adverse trade effects resulting from the use of resource input subsidies, targeting and dumped or subsidized imports,

(4) the extension of GATT articles and codes of conduct to products, sectors and conditions of trade not presently covered; such as services, investment performance requirements, intellectual property rights and extension of entity coverage under the Procurement Code,

(5) establishing procedures for gradually reducing nonreciprocal trade benefits as developing nations become more advanced,

(6) addressing persistent and excessive current account imbalances of GATT contracting parties with the world, "including imbalances which threaten the stability of the international trading system",

(7) accelerating agreed-to trade concessions of countries having persistent current account surpluses,

(8) enhancing transparencies in the international trading system, "including, but not limited to, substitution or replacement of quantitative restrictions with tariffs or auctioned quotas and the use of tariffs for domestic adjustment",

(9) increasing GATT coordination with the IMF and the World Bank, and

(10) establishing minimum standards applicable to the workplace to provide greater international discipline over abuses of human rights or workers.

E. Section 105. Authority to Impose or Increase Duties in lieu of Quotas.

Section 105 adds a new section 110 to the 1974 Act authorizing the President, for the five-year period beginning on January 3, 1988, to increase tariffs or impose new tariffs in lieu of any quantitative limitations which are or may be imposed on any import, or to use import licenses in administering any of such limitations and to sell such licenses at public auctions.

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Senator DANFORTH. This is a hearing on portions of S. 1837, introduced by Senator Bentsen and others, and S. 1860, introduced by Senator Moynihan and myself, and 32 other Senators, and S. 2865, which is Senator Baucus' bill, incorporating, or encompassing a portion of S. 1860 relating to new round authority.

I know that this is something that is very high on the administration's agenda. I have a less enthusiastic view of it, although I am not necessarily opposed. But I have to say that new round authority is not one of the top things on my agenda.

But we are delighted to have Ambassador Yeutter with us today. I think some Senators may have opening statements. Would anyone like to be recognized?

Senator Heinz.

Senator HEINZ. Mr. Chairman, just very briefly. In the past I have supported negotiating authority for new rounds and I may in the future, but I have reservations about supporting U.S. entry into a new round at this point for three reasons. First, I am not convinced that we have an adequate understanding or any analysis of the cost and benefits of the last round of negotiations to the United States.

I do not think there has been very much work done in this area. I would like to be proven wrong. But I think it is unlikely that we have seen an analysis of the effects of our trade concessions and any determination of the extent to which the new codes of behavior are being honored or are leading to a restoration of discipline in the trading system. It has been my experience that too often as we have lowered tariffs, we have gotten—on both sides—nontariff barriers springing up to compensate. Second, as 10 members of this committee indicated during the Canada debate, there are serious concerns about the administration's disregard of every congressional proposal to strengthen our trade policy.

The administration characterizes everything we do as protectionism, and if they are for it it is free trade. And that is a dichotomy that, in my view, is false.

I guess maybe the bottom line is that the administration just does not take Congress seriously in the trade policy area. While there may be some legitimate substantive differences between what the Congress wants and what the administration wants, I think the administration is guilty of rhetorical overkill which it would be well advised to abandon and start getting serious about the issues.

Finally, I have to say—and this is not aimed at Clayton Yeutter or any specific member of the administration—the negotiating record of the administration is hardly one that inspires confidence in our ability to preserve our interests in a new trade round.

Frankly, we have given away the store to the Europeans in steel. Ambassador Yeutter knows my feelings on that. We have given it away to the Japanese on leather, and with respect to Hong Kong, Taiwan, Korea and the entire Caribbean Basin, textiles and apparel. And our successes, in my view, have been, at best, damage limitation and our failures have been disastrous for many industries.

So I have deep reservations about whether we are really in a position to handle new round authority effectively and well. I am not closing the door—I have an open mind—but I also have some serious problems that need to be resolved.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

I come from a little bit different direction. I guess I was probably the first one to call for a new round of negotiations. I thought it was important several years ago when you appeared before my subcommittee on the Joint Economic Committee, and I think it is important today. But I do think it is important that all of us understand that GATT is increasingly irrelevant, and I think that a new round of negotiations really is the last clear chance of saving the multilateral approach to trade.

And for that reason, I hope that as we approach a new round—and I shall be happy to work with you and others who believe that we should have a new negotiating round—but I am talking about a really basic approach, what I would call "Havana 2." I think everything should be up for reexamination.

Many of the concepts of the past that we thought were germane to the situation, desirable, ought to be reviewed once more. I am not totally confident that those who are not willing to give on some of the issues should enjoy the benefits, but I leave that for future discussions and investigation.

But it does seem to me that as we approach this new round that our friends and allies, our trading partners, must understand that they have to be willing to discuss all matters. And we are not going to be willing to go there and have them say, well, agricultural is off limits, or services are something else. If that is their approach, then I think we ought to be ready, willing and able to say we are going to come home.

Because either these negotiations are going to be meaningful; they are going to reexamine some of the old propositions once more; they are going to look at the problems of services, of agriculture. I think we have to look at the dispute settlement to see how that can be improved upon. But I do think that, as I said earlier, this is an important initiative, and I do hope that Congress will give the administration the authority and the background.

Let me just in closing say one thing because I think it has to be understood not only by ourselves but by the world at large that the U.S. market is really the plum. I think every nation in the world—large, small, from many cities, to many states, to the largest, such as China—when they want to trade they look at the American market. What can they produce to sell here?

So that we ought to insist that access to our market means that we have to have fair play. And I wish you every success.

Senator DANFORTH. Mr. Yeutter, please proceed.

STATEMENT OF HON. CLAYTON YEUTTER, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador YEUTTER. Thank you very much, Mr. Chairman. It is nice to be back to discuss something other than United States-Canada comprehensive bilateral negotiations.

Senator DANFORTH. I was enjoying that.

Ambassador YEUTTER. Just a couple of preliminary remarks in response to the comments that Senator Roth and Senator Heinz had.

First, I would say to Senator Heinz that he raises a very legitimate question with respect to evaluating benefits versus costs of past rounds of trade negotiations. We, the United States, really ought to engage in that kind of exercise after every major trade negotiation. And as a nation, we probably have done too little in the way of self-critiques and evaluations of how well we have done.

All of us have some views on the outcome of the Tokyo round. There is no point in spending a lot of time on that this morning. But I am certainly amenable to looking at what might have developed in the way of a critique of the Tokyo round. And, in my judgment, that is a very legitimate query.

In terms of the negotiating record of the United States, that is obviously very subjective and difficult for anyone who is directly involved in the process to make an evaluation, so I will leave that for the record to be evaluated by historians, or others, in the future.

I am personally confident that we have done a very fine job in recent months of negotiations. We have brought some issues to a conclusion that have been pending for a long period of time, and those have been brought to conclusions very favorable to U.S. interests.

With respect to Senator Roth's comments about the GATT becoming increasingly irrelevant, that is one of my deep concerns too, and one of the reasons that I believe a new GATT round is imperative. I have had discussions with a lot of people on this subject in recent months.

Senator Roth, just to bring you back into this, I was commencing on your point that the GATT is becoming increasingly irrelevant, and I was saying that I share that view, or that concern. And I have had a lot of discussions in recent months with people both in and out of the U.S. Government on that—private sector, and governmental, and people of other nations, and trade officials of other nations—because it seems to me that that is the challenge that we all face over the next few years, and it is a major challenge indeed.

My personal judgment, Sentor Roth, is that the GATT is in more jeopardy today than it ever has been in its entire existence, and that the new GATT round will be as challenging in those terms as the original round was, or the original negotiations to establish the GATT. I put it in that same general category.

And I would add parenthetically, Senator Roth, that I have even discussed this topic with officials of the World Bank and the International Monetary Fund, the other multilateral organizations that have a role in the overall trade picture. And those organizations are not critical of the GATT. They have the same concerns that we do. They do not want to see the GATT fall apart. They want to see the GATT be strengthened and play the kind of multilateral role that the IMF and the World Bank do in their respective areas.

But it seems to me that there is a lot of support around the world for the approach, or the concerns that you articulated.

I also like your comments that we should have a very broad negotiating agenda because, otherwise, it makes it increasingly difficult to achieve a meaningful result at the end.

And I would add an additional parenthetical to your remarks about the U.S. market being a plum. That is something we sometimes tend to forget, and it is something that our trading partners conveniently forget.

Just a few days ago I had a discussion with the trade minister of a particular less developed country that relates to the point that you have just made, and he was negotiating very aggressively for additional entry into the U.S. market on a particular product. And I said to him, why are you pushing so hard for this additional entry into the United States? And he said, well, it is very simple. He said, we have given up on the Japanese market. We are heavily constrained already in the European market. The U.S. market is the only major market left.

And I suspect that that is the answer we would get from a lot of countries on a lot of issues. Now, back to the major subject at hand. Senator Danforth, I will do this very quickly.

In my opinion, Mr. Chairman, a new GATT round is imperative and very much in the interest to the United States, and very much in the interest of the trading world as a whole.

You heard me say before in discussions that we had had over the last several months that I become increasingly convinced of this since I returned to Government 9 months ago, or thereabouts. I was not so convinced then: I am much more convinced now because I can see so many more problems extant than I could at that time.

I will just articulate a few of the major ones that merit attention in a new round. And let me start with the new ones because the United States has been in the forefront of all of these discussions in Geneva, and in our quadrilateral trade ministers' meetings, and elsewhere.

As you do know, Mr. Chairman, the United States has done a lot of work on the whole area of services in recent years. And it seems imperative that we cover that subject in a new GATT round because so much of world trade will be devoted to services in the next two or three decades, and because the United States has such a major interest in that area.

How much we can achieve in a new round on services remains to be seen, but certainly we ought to be able to negotiate an umbrella agreement that would be beneficial to everybody globally, and, hopefully, negotiations in more depth in some individual sectors.

Now what those sectors will be remain to be seen. We have our Services Policy Advisory Committee working on that right now, as you know.

A second subject, of course, is intellectual property, which is one that has a great deal of support here on Capitol Hill and elsewhere, tremendous support within the American business community; a great concern about the piracy that exists in the intellectual property arena today internationally and the need to deal with that issue both bilaterally and multilaterally.

A third of the new issues is investment. We have been in the forefront of that discussion in recent months much more than any time in the past. There has not been as much ground work laid on

the subject of investment as there has been on services, but many of our business community representatives give it an even higher priority, their view being that investment is a prerequisite to effective exporting, and that if we do not have sound trade related investment rules in the world we will never be the success that we would like to be in exports.

We clearly cannot solve all the problems of investment, global investment, in a new GATT round, but, hopefully, we can solve some of them. And I suspect that this might be one of the greatest contributions in a new GATT round that could be made to the lesser developed countries. They do not see it that way at the moment; in fact, Mr. Chairman, they are opposed to including investment—most of them are—on the agenda of a new GATT round. In my judgment, that is simply absence of recognition of their own self-interest.

But we have ample interest too because we are a major investor and a major potential investor internationally.

The other topic that I would put in the new category, new subject category, is agriculture. Agriculture has been negotiated in every past GATT round, to my knowledge, but with no success of at least no success of consequence in any of them. As a result, we are in a situation today where global agriculture is in tremendous economic difficulties, under enormous strain, becoming increasingly confrontational and contentious, and something needs to be done about it.

As you know, the President raised this issue at the economic summit in Tokyo a couple of weeks ago--the first time that agriculture has ever been on a summit agenda--and obtained a concensus among all the summiteers that this was a topic that merited the serious attention of all major trading nations.

We also were able to secure excellent language on agriculture in this year's OECD ministerial communique, broader language than we have ever had in the past. So I have a higher level of confidence about being able to achieve something on agriculture in a new GATT round this time than I have ever had previously.

Now aside from the new areas, I would like to just very briefly touch on some of the existing areas that need continued work and then we can proceed to questions.

One of the highest priorities clearly has to be safeguards. As you know, the GATT members attempted to negotiate a safeguard code in the Tokyo round. They failed. Nevertheless, a lot of the preliminary work was done. That is one that should be negotiated on a fast track in a new round, in my judgment, because all of the debate points are well know. We do not have to go through a learning exercise on safeguards. And the need for an adequate safeguards code is greater today than ever before.

Our situation at the moment, Mr. Chairman, is that the United States has an excellent safeguards law. You have some questions about its implementation in the United States, but I believe that we would both agree that the content of the safeguards law, or escape clause law, in the United States is a commendable one, and one that we would strongly recommend for adoption on a global basis, or at least something very close to that.

Now, we need to get that done because most trade restrictive actions that are taken today in the name of escape clause provisions

are outside of the scope of the GATT. Nations are ignoring the provisions of article XIX, which is the GATT escape clause provision, and doing so blatantly and flagrantly.

I believe a recent GATT study indicated that there were well over 90 gray area measures of a safeguards nature that are totally outside of the scope of the GATT today, most of them being followed by either the European community or Japan.

We do need to do a lot of things in the high technology area too.

At one point in time, Mr. Chairman, we considered making an argument for a high technology working group in a new GATT round. My judgment was that that was not a sound approach because it is too difficult to enumerate what should be included in that kind of a working group. But we need to do a lot of things for high technology industries and a whole host of additional working groups. That is an area of enormous importance to this country. It is one of our big potential growth industries, and one where we have an enormous amount of trade problems today on a bilateral basis. So we need to encompass high technology concerns in a whole series of areas in a new negotiating round.

Finally, we need to work on market access, opening up markets overseas in a whole variety of ways.

A tariff negotiation will be a part of that again, not nearly as important as it was in earlier rounds of GATT negotiations, but important nonetheless. And our private sector advisory committees are indicating that to us.

On nontariff measures, we need to get some changes made in some of the existing nontariff measure codes. And whether we do that in a new GATT round, Mr. Chairman, or whether we do it under just the existing ongoing negotiations, or a combination of both, has yet to be determined. But we all know that we need significant changes in some of those codes, particularly the subsidies code and the Government procurement code.

And I could go on with a few more additional comments, Mr. Chairman, but those are most of the highlights. And I would just then make one additional comment on the private sector advisory process, in closing.

As you well know, we have about more than 40 private sector advisory committees involving 800 people or thereabouts in this process. They have been at work for the last year or so on the new round. The Presidential Advisory Committee for trade negotiations made a report to us which has been shared with you here a number of months ago evaluating prospects for a new GATT round. Some of that was positive and some of it was negative for a variety of reasons.

And since then all of these committees have been at work. And just for your information, we have a June 30 deadline on all the initial input flowing into us for a new GATT round agenda.

As you also know, there is a July 19 deadline for reports by the Preparatory Committee in Geneva, and a September 15 opening date for the GATT Ministerial meeting in Punto-del-Este which is intended to launch the new GATT round.

Mr. Chairman, that is the opening statement. I will be glad to take any questions you all may have.

[The prepared written statement of Ambassador Yeutter follows:]

U.S. OBJECTIVES IN THE NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS

TESTIMONY OF

CLAYTON K. YEUTTER
UNITED STATES TRADE REPRESENTATIVE

BEFORE THE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE

MAY 14, 1986

Mr. Chairman and members of the Subcommittee. I am pleased to appear before you today to discuss the new round of multilateral trade negotiations. This is my first opportunity to formally discuss the new round with you and to begin what I envision as an intensive collaboration and dialogue with you on a vital component of the Administrations's aggressive policy to correct the weaknesses of the present international trading system. I will offer the Administration's views on why the national interest would be served by negotiations, what objectives we have preliminarily identified for the United States, how private sector consultations shape our objectives, and, finally, the kind of procedure we would seek to gain approval for, and implementation of, the results of the negotiations.

INTRODUCTION: THE NATIONAL INTEREST IN THE NEW ROUND

Our stake in a strong and open world trading system that allows for the expansion of U.S. exports is real and actual, not theoretical and distant. U.S. merchandise trade now accounts for 15 percent of U.S. Gross National Product, more than double the 1960 percentage. Over three and one-half million jobs in the United States are related to exports of manufactured products.

Moreover, despite the stagnation in recent years, exports continue to be more important to the U.S. economy than in past decades. Exports as a share of production in goods-producing industries accounted for 12.2 percent in 1972; 25.2 percent in 1980; and 19.3 percent in 1984. Exports are critically important for many U.S. sectors, accounting for over one-fourth of total shipments in industries such as construction machinery, aircraft equipment, semiconductors and related products, general industrial machinery, oil field machinery, phosphate fertilizer, industrial inorganic chemicals, electronic computing equipment and instruments to measure electricity. Some sectors of U.S. industry, despite recent slumps, have experienced dynamic export growth rates, averaging ten percent annual growth over the period 1980 to 1984. Examples include electronic computing equipment, petroleum refining equipment, semiconductors and aircraft engines and parts.

Agriculture accounts for seventeen percent of U.S. export trade.

Although our exports have fallen by about $15 billion in the last four years, we are still the world's largest exporter of agricultural products. In 1983, over 1 million jobs were related to U.S. agricultural exports.

In addition, our services sectors play an increasingly important role in U.S. export performance with an estimated $60 billion in exports from these sectors. These industries account for 73 percent of U.S. employment. It is estimated that seven of ten new jobs over the next decade will be in services.

Finally, the United States is the largest single trading nation in the world; in 1984, U.S. exports accounted for over ten percent of world exports. Expanded opportunities in foreign markets are of fundamental importance to the U.S. as a nation. Currently, those opportunities are limited by the distortive impact of foreign government policies and the inability of the GATT system to redress them.

That is why President Reagan has taken the lead in urging that a new round of multilateral trade negotiations be launched.

PRIVATE SECTOR ADVICE TO DATE AND U.S. GOVERNMENT RESPONSE

Before pressing ahead with our new round initiative, former U.S. Trade Representative William Brock asked the private sector trade policy advisory committees in January 1985 to provide their

views on U.S. objectives for negotiations. The groups were requested to give advice on the level of their support for a new round, the advantages and disadvantages of pursuing it at this time, and specific trade issues of concern in the negotiations. In May of last year, the Advisory Committee for Trade Negotiations, chaired by Edmund Pratt, Chairman of the Board and Chief Executive Officer of Pfizer, submitted to USTR a report summarizing the views of the Industry, Services, Investment, Defense and Labor Policy Advisory Committees. In addition, the report contains views from a number of independent business organizations, including the Business Roundtable and the U.S. Council for International Business. In addition, the Agricultural Policy Advisory Committee submitted a report providing advice on new trade negotiations in August, 1985. Thus, the Pratt Report, as it is known, and the Agricultural Policy Advisory Committee Report represent a broad and significant sampling of private sector opinion on U.S. trade policy and how a new round can advance our trade interests.

Quite frankly, the private sector voiced a number of concerns in the Pratt report, as well as elsewhere, on the Administration's proposal for a new round of trade negotiations. We heard from the private sector that the Administration should deal with problems of immediate urgency before entering a new round of multilateral trade negotiations. I would like to report on the Administration's response to these concerns.

First, the private sector questioned whether the Administration would use the new round as a smokescreen to avoid dealing with the overvalued dollar.

The President's trade policy program last September sought to immediately address the high value of the U.S. dollar, a significant impediment to U.S. exports, which had been one of the contributing factors -- along with slower growth in our major trading partners and the impact of the LDC debt situation -- that severely handicapped U.S. exporters in foreign markets, while intensifying import competition in our own market. The President's action on the dollar has been reinforced by increased cooperation among major industrial countries in the context of the Group of Five Finance Ministers, the Organization for Economic Cooperation and Development, and the Tokyo Summit of Industrial Democracies. As Secretary Baker explained yesterday, the Administration has responded positively to concerns about the impact of the strong dollar on the U.S. competitive position.

The Plaza Agreement last September has resulted in exchange rate relationships that better reflect underlying economic conditions and thereby provide the basis for stronger, more balanced growth. The Tokyo Summit agreement carried the process further, agreeing on a more systematic approach to international economic policy coordination that incorporates a strengthened commitment to adjust economic policies. The end result should be greater exchange rate stability, enhanced prospects for growth, and more

sustainable patterns of international trade.

We are encouraged by these developments and expect that these efforts will continue to bear fruit within a reasonable period of time. Since February 1985, the trade weighted value of our dollar has declined by approximately 30 percent against the currencies of the major industrialized countries. Non-petroleum import prices have risen about 6 1/2 percent. The Administration expects the deterioration in our trade position to halt this year and we look forward to substantial improvement next year. Exchange rate changes take time to work their way through our economic system as business and consumers gradually adjust their plans.

Second, the private sector advised us to reduce massive federal budget deficits before launching new negotiations.

The Administration has submitted a budget to Congress for Fiscal Year 1987 which meets the deficit reduction target set out in Gramm-Rudman-Hollings. We expect to reduce progressively the drain of federal spending on private savings according to the plan laid out in the law. Such action should reduce U.S. foreign borrowing and the trade deficit.

Third, the private sector complained that the Administration was not enforcing U.S. trade law.

The President's trade policy action plan also encompassed measures to fight unfair and discriminatory trade practices on the part of foreign governments by vigorous enforcement of U.S. trade law.

The Administration has taken aggressive action to enforce our rights under U.S. and international trade law. Since last fall, the Administration has:

-- self-initiated four cases under Section 301 of the Trade Act of 1974, against:
  - Brazilian informatics policies,
  - Japanese restrictions on manufactured tobacco products,
  - Korean restrictions on insurance, and
  - Inadequate intellectual property protection in Korea

-- favorably settled two longstanding disputes:
  - against the EC on production subsides on canned fruit, and
  - against Japan on leather and leather footwear quotas;

-- settled two disputes without bringing action under Section 301:
  - agreement was reached with Taiwan to negotiate on barriers to U.S. exports of beer, wine and tobacco, and

- the Government of Korea has eliminated practices which limited the access of the U.S. motion picture industry to the Korean market;

-- announced the President's decision to act under section 301 against European Community restrictions on imports of agricultural products in connection with the accession to the EC of Spain and Portugal if we fail to resolve our differences.

-- announced our use, for the first time on our own motion, of Section 305 to examine the trade ramifications of the EC's proposed Third Country Meat Directive; and

-- announced our first investigation under Section 307 of the Trade and Tariff Act of 1984 to investigate the possible adverse effects on our domestic automobile industry of Taiwan's use of export performance requirements tied to investments in the automobile industry.

Fourth, the private sector expressed concern that a new round of multilateral trade negotiations would not prove to be an effective response to the problems we face.

In response, the President reaffirmed his commitment to rebuilding the trading system through a new round of negotiations. The President's program includes steps to be taken to revamp the

international trading system, building into it more effective rules and disciplines and expanding those disciplines into areas where they currently do not exist. President Reagan believes, as I do, that the multilateral trading system provides the best means to build a stronger international economy and to expand opportunities for U.S. exports. We are developing an ambitious set of objectives for the new round, which I will describe in a moment. The President has made clear his intention to pursue these goals multilaterally first, but if we are thwarted in the GATT, we will proceed to defend our interests through other measures.

A fifth major private sector concern was that the United States would have to "pay" other countries just to get them to the negotiating table, since the U.S. was the only country pushing for a new round.

In my view, the United States has to continue to take the initiative in the GATT. It is true that other countries look to us for leadership on the new round. However, we are not alone. The vast majority of GATT members agree with us that the time has come to seriously prepare for new trade talks. At the November, 1985 annual meeting of the GATT Contracting Parties, the 90 members agreed by consensus to establish a Preparatory Committee to lay the groundwork for the new round. The April meeting of 24 OECD Ministers resulted in a vigorous endorsement of the new round, as did the recent Summit meeting of industrial democracies

in Tokyo. We see these as clear signs that the major trading countries of the world support the early launching of comprehensive negotiations.

It is one thing to offer concessions to get countries to negotiate and entirely another matter to agree to discuss issues of concern to any country in the negotiations. We are prepared to negotiate with our GATT partners, but it makes no sense to "pay" them in advance to come to the table to develop more effective and enforceable rules to govern our trade relationships. Better rules are in the interest of all countries, and we hope and expect that a substantial number -- indeed, the vast majority -- of GATT members will participate in the negotiations. However, no country can be obliged to join us, and we certainly won't "pay" them to do so.

Sixth, we heard from the private sector that a new round would do little to benefit U.S. industry, in particular the manufacturing sector.

In my view, competitive U.S. producers of all products will benefit from increased discipline in the trading system. The new round is a long-term endeavor. It is not a quick fix for American competitiveness, a substitute for aggressive action to enforce our rights, or the only vehicle for removing foreign barriers to U.S. exports. The new round is one part of the President's aggressive, all-fronts trade strategy.

The benefits to U.S. industry -- be it the manufacturing, agriculture or services sector -- will come about through the development of new, effective and enforceable disciplines over foreign government policies and practices affecting trade (for example, agreements on subsidies, safeguards and services). U.S. industry will also benefit from negotiations to open foreign markets for U.S. exports and to reduce barriers and restrictions in existing export markets.

To succeed, we will have to be ambitious in our objectives, tough in our tactics and patient in our strategy. That's why the new round should not be seen as a panacea, but as one part of the all-fronts, aggressive trade policy action program.

Seventh, we heard from the private sector concern that the U.S. would trade away the interests of American manufacturing for agreements on services or for systemic improvements, such as dispute settlement.

It is my belief that this round of negotiations will differ significantly from previous rounds in that there will be far less emphasis on tariffs. At the same time, we do have some important market access objectives of our own that will require the reduction of foreign tariffs. In addition, the major focus of the new negotiations will be on developing more effective and enforceable rules covering government policies and practices affecting

trade. Finally, in my view, a major part of the new negotiations must be devoted to strengthening the GATT as an institution.

We seek, where appropriate, self-contained agreements on individual issues. Moreover, just as it makes no sense to pay countries to negotiate, it makes no sense to pay any country for improved rules in its own self-interest.

Finally, we heard from the private sector that the Administration did not know what it wanted from the new round.

Mr. Chairman, at the outset of this process, no country had a specific list of objectives for the new round. However, the vast majority of GATT members echoed the need for urgent negotiations to fix the trading system. Since last September, we have been working in the GATT and with the private sector to develop our negotiating objectives. These objectives are preliminary, and, obviously are subject to revision as we continue preparations for the negotiations.

The preparatory process was formally initiated at the annual November meeting of the GATT Contracting Parties, with a unanimous decision to establish a Preparatory Committee. The Preparatory Committee has met six times since January and has established an intensive schedule of meetings through mid-July, 1986. The Preparatory Committee will forward its recommendations on the objectives, subject matter, organizational arrangements and

participation in the new round to a Ministerial-level meeting to begin in Uruguay on September 15, 1986. At that time, the Ministers will decide whether to launch a new round and on the program for the negotiations.

The preparatory process thus far has usefully highlighted a number of themes. First, there is broad agreement on the urgent need for negotiations to fix the trading system and strengthen the GATT as an institution. There is also widespread consensus on specific issues for the negotiations, including agriculture, safeguards, barriers to market access, and dispute settlement.

PRELIMINARY STATEMENT OF U.S. OBJECTIVES FOR THE NEW ROUND

Mr. Chairman, based on our consultations with industry, labor and agricultural representatives over the past 16 months, we have formulated a preliminary statement of negotiating objectives for the United States in the new round of multilateral trade negotiations.

The United States favors a new round to fix the international trading system, now in a state of considerable disrepair; to guide the evolution of the rules and disciplines of the trading system into the twenty-first century; and to create a trading system that helps, not hurts, the long-run competitiveness of American industry, services and agriculture in international markets. Only an ambitious, comprehensive agenda will do the job.

Our specific objectives are the following:

Agriculture

Agriculture is a matter of urgency for us and most of the GATT. We have one major goal in agricultural negotiations and that is to bring to an end the chaos that now characterizes the international marketplace. It is imperative that we bring agriculture under effective trading rules and disciplines, by eliminating import restrictions on agricultural products, treating agricultural export subsides no differently than subsidies for industrial products, and eliminating other barriers to market access in developed and developing countries. The recommendations of the GATT Committee on Trade in Agriculture provide a good framework for negotiations on agriculture. However, the problems we and other countries face in agricultural trade are enormous because, traditionally, too many exceptions from GATT rules have been made for agriculture. Negotiations in agriculture will be difficult, but we are confident that real progress will be made. If we are not successful, we risk a serious breakdown in the world agricultural trading system.

We do not intend to address agricultural problems exclusively in an agricultural group. Rather, we will seek to address problems in agricultural trade in all relevant areas

of the negotiations, so that no participant will be able to place a procedural roadblock in our way. Such a thwarting of the clear will of the majority of the GATT to negotiate solutions in agriculture would be intolerable.

Safeguards and Other Temporary Import Measures

For a large number of GATT members, including the United States, it is essential to reach a comprehensive agreement over the use of all safeguard actions (i.e., emergency actions to temporarily restrain imports allowed under Article XIX). This is an area that is fundamental to the trading system, and our collective success in this area is critical to developed and developing countries. The GATT Secretariat has identified some 94 recent safeguard-type actions taken outside the relevant GATT provisions, the overwhelming majority involving the European Community and Japan. This listing illustrates the need for a comprehensive agreement so as to protect our market from disruptions caused by the actions of other countries, and to protect the interests of smaller, less powerful countries with limited ability to retaliate to protect their rights.

During the Tokyo Round, the rest of GATT members could not reach agreement with the European Community on rules to improve the operation of safeguard actions. Since the Tokyo Round, the situation has become much worse. It is time to

improve and strengthen the rules regarding emergency import restraints and to ensure that they are based on the principles of the GATT.

At the same time as we attempt to develop disciplines over the safeguard measures taken by developed countries, we must also develop comparable rules for all temporary measures taken by developing countries to restrain imports. I have in mind developing country exceptions and derogations to GATT rules in the area of infant industry and balance of payments measures. It's about time we made sure that all temporary import measures are indeed temporary, transparent, phased down over the duration of the measure and subject to strict multilateral surveillance. Because of the importance of this issue to all members of the GATT, temporary import measures should be an area where an early conclusion of the negotiations may be feasible and, if so, could stimulate reaching agreement in other areas.

Tokyo Round Non-Tariff Barrier Codes

The first serious effort to develop meaningful international discipline over non-tariff barriers occurred in the Tokyo Round of trade negotiations during the last decade. We are seeking to build on our experience with the Codes negotiated during the Tokyo Round -- on standards, or technical barriers to trade, on subsidies, aircraft, customs valuation, import

licensing and government procurement -- to, where necessary, strengthen and expand the agreements, update provisions, improve their functioning, and expand participation. Negotiations on improvements to the Codes do not necessarily have to be part of the new round, but rather could continue on their present track and be implemented before the new round is completed.

State Trading Practices

At the initiative of Chile, the Preparatory Committee has examined the possibility of including in the new round a review of GATT Article XVII, which stipulates that government trading entities should act in accordance with commercial considerations and in accordance with GATT principles of non-discrimination. We believe this suggestion has considerable merit. Government trading entities, or trading entities which are government owned or controlled, can introduce serious distortions in the international marketplace. In view of the increasing, rather than decreasing, prominence of state trading enterprises in international trade, we believe the negotiations should aim to make these rules operational and enforceable with respect to trade by government enterprises of all GATT members.

Intellectual Property Protection

To address trade aspects of intellectual property protection problems, the Administration is actively exploring with our trade partners the recommendations of the President's Advisory Committee on Trade Negotiations to negotiate a binding agreement or code in the GATT on intellectual property similar to the codes negotiated in the Tokyo round. Such a GATT code would supplement existing international conventions, including those administered by the World Intellectual Property Organization. Such an approach in addition to developing better international norms, would also seek improvements in such areas as dispute settlement and enforcement.

Internationally, one of our priorities is completing work on the GATT anti-counterfeiting code. Stopping trade in counterfeit goods is important because they diminish the value of trademarks and good business reputations, and they create special dangers of fraud and safety for consumers. The proposed Code is aimed at curtailing trade in goods bearing counterfeit trademarks. Basically we have reached agreement in principle with other developed countries in their work on the Code. But, quite frankly, completion of the Code has been held up by the strong objections of developing countries and the reluctance of some industrial

nations to proceed without LDC participation. If the industrial nations could agree to sign and implement the Code, we would make great strides toward solving the counterfeit problem, since most counterfeit products are sold in these markets. We intend to press hard to secure agreement on the Anti-counterfeiting Code as one element of intellectual property issues.

Investment

Increased flows of foreign direct investment can play an important role in achieving sustainable economic, trade and real income growth in all countries. For developing countries facing long-term debt servicing constraints, increased flows of foreign direct investment are essential. Government investment policies can have a dampening and distorting impact on world trade. The adverse effects of these measures are comparable to those created by tariffs and non-tariff barriers such as quantitative restrictions and export subsidies.

We are seeking in the negotiations to build effective discipline over government investment policies and measures which divert and distort both investment and trade flows and thereby reduce the contribution of trade liberalization to expanding world trade and economic growth.

Services

We are seeking negotiations in the area of trade in services which would establish a framework of binding principles and procedures that will provide for the maximum opportunity for international transactions in these rapidly growing sectors of the world economy. We need to act now to develop meaningful rules to discipline government actions that restrict or distort the movement of services internationally -- before protectionism in this sector curtails our access to foreign markets.

High Technology

High technology is an increasingly vital component of American production. While we have come to recognize that separate negotiations on a "high technology code" is an unworkable solution to the trade challenges facing high technology industries, we have changed only our approach, not our objectives. High technology considerations will be a critical part of the negotiations, in particular, in such areas as intellectual property protection, market access, services, standards, subsidies, tariffs and rules of origin.

Worker Rights

Just as high technology considerations are important to many

areas of the negotiations, so to are worker rights. We have told our GATT trading partners that worker rights should be considered in the new round in some form. While we have not yet proposed any particular negotiating approach, we will seek to ensure that trade expansion is not an end to itself but that it benefits all workers in all countries.

Market Access

Access to foreign markets is a critical issue for the United States. Our market access difficulties with Japan and the European Community are well known to this Subcommittee. In addition, we face increasing barriers in developing country markets as well. Furthermore, in comparison to Japan and the European Community, we take a disproportionate share of manufactured imports from developing countries. In the negotiations, we have to address all these problems.

Although the primary focus of the new negotiations will be on developing more effective rules and disciplines over trade policies and practices, we anticipate there will also be some classical swapping of concessions to reduce tariff and non-tariff barriers to trade. We are continuing to consult with our private sector advisors to develop a list of specific barriers to be eliminated. Preliminary discussions have indicated to us a number of non-tariff barriers, such as

quantitative restrictions and discriminatory barriers that we plan to address. We will use material developed in connection with the annual National Trade Estimates Report to the Congress, mandated in the Trade and Tariff Act of 1984, in identifying barriers to trade.

Although tariffs will not be a centerpiece of the new round as in previous rounds, our private sector advisors have already begun to identify a number of areas where tariffs remain a significant barrier to trade -- in such diverse areas as carpeting, ferrous and non-ferrous metals, furniture, chemicals, paper and telecommunications, as well as unbound developing country tariffs. We intend to pursue our tariff objectives, based on an exchange of requests rather than the formula-cut pattern of previous rounds, in areas where high tariffs remain a significant impediment to trade.

Strengthening the GATT as an Institution

We are seeking in the new negotiations ways to improve the functioning of the GATT system and to strengthen the GATT as an institution that is viable, credible and responsive to the changing conditions of international trade and the trading community. One area of particular importance here is improving the GATT dispute settlement process and procedures. It is vitally important for the United States to have a dispute settlement mechanism in the GATT that works effec-

tively and in a timely manner. I personally see little utility in improving the rules of the GATT without a way to enforce them.

Other areas where we are considering improvements in the functioning of the GATT are in greater Ministerial involvement in the GATT, improved and strengthened notification and surveillance requirements, and an improved "steering" mechanism to guide GATT operations.

We will continue to elaborate this set of objectives as we move ahead in the GATT preparatory process for the new round. The active involvement of the private sector every step along the way is crucial to this effort.

IMPORTANCE AND NATURE OF PRIVATE SECTOR ADVISORY PROCESS

Active and ongoing dialogue between government and the business, labor and agricultural communities on the direction of trade policy is a very critical part of policy formulation in the United States. Advice from the private sector to government on trade policy matters and active communication between the two has been an integral part of the policy development process at least since Congress created in the Trade Act of 1974 a system of private sector committees to serve as formal advisors to the U.S. government during the Tokyo Round of trade negotiations.

As the international dialogue on a new round of multilateral trade negotiations has proceeded in the GATT, we have intensified our consultations with the private sector advisory committees to ensure that their concerns are fully addressed in the new round. The U.S. Trade Representative, in cooperation with the Departments of Commerce, Labor and Agriculture, works with 41 advisory committees composed of approximately 1000 representatives of industry, labor and agriculture, from the CEO level to a vice-president or manager level. The USTR regularly consults with representatives of the private sector in committees concerned with overall and specific trade policy matters, individual industry and agricultural sectors, and functional trade policy matters such as standards and customs valuation.

I am seriously and personally committed to the continued success of the private sector advisory committee system. Since last September, when the international discussions on preparations for a possible new round of multilateral trade negotiations reached an intensive phase, we have consulted with the private sector advisory committees at every opportunity. I have personally attended 35 advisory committee meetings to discuss issues of concern, including the new round and the direction of U.S. trade policy. Two of my deputies, Ambassador Alan Woods and Ambassador Michael B. Smith, and senior members of my staff have consulted actively with the advisory committees on the new round and other trade policy issues. In cooperation with the Departments of Commerce, Labor and Agriculture, we held a meeting in March for

all interested advisors to review the preparatory process for the new round and to discuss in depth specific negotiating issues for the United States in the new round. In cooperation with the Department of Commerce, we have held three meetings of the Chairmen of the individual industry sector advisory committees (ISACs) to discuss new round issues.

We have strongly urged the private sector committees to provide U.S. policymakers and negotiators with specific, detailed advice on their objectives in a new round of multilateral trade negotiations. We have asked for preliminary advice from the committees at the earliest possible opportunity, so that the views and concerns of the private sector can be factored into the preparatory process for the new round and into Ministerial decisions that will be made in September. In general, we are encouraged by the advisory committee process for the new round and the quality of the responses we have received thus far to our requests for negotiating advice.

We have made great headway in initiating an active and substantive dialogue with the private sector advisory committees. However, this is just the first step in a ongoing process which will be an intrinsic part of U.S. negotiations in the new round. We will consult regularly and actively with the private sector advisory committees throughout the preparatory work for the new round, during the actual negotiations and as we prepare to submit agreements for Congressional approval.

In addition to the formal, statutory private sector advisory committee system, my staff and I have actively consulted with independent business, labor and agricultural organizations and individual companies on issues and objectives for the United States in the new round of trade negotiations. We have strongly encouraged independent private sector work to identify issues and objectives of importance for the private sector in the new round. At USTR, the doors are always open to any and all members of the private sector interested in trade issues.

ADMINISTRATION VIEWS ON NEGOTIATING AUTHORITY FOR THE NEW ROUND

My comments on the extension and expansion of negotiating authority for the new round are in two parts:

First, with respect to non-tariff trade barriers, our current authority under Section 102 of the Trade Act of 1974 expires January 3, 1988. An extension of that provision under acceptable conditions would be useful so that we can negotiate reciprocal reductions on non-tariff barriers in the new round and beyond. I see no reason why this authority should not be made permanent. We will assuredly need it for decades to come.

Second, we lack authority to negotiate reductions in tariff levels, either in the new round or in other negotiating fora. In contrast to previous trade negotiations, we do not expect tariffs

to be a major element of the new round. Nevertheless, our private sector advisors have identified a number of important objectives to be achieved in the tariff area, such as reducing high foreign tariffs on paper, furniture, carpeting, and a number of agricultural products, and binding the currently unbound tariffs of many developing and a few developed countries.

We intend to take up these matters as part of broader negotiations on market access, but we cannot expect our trading partners to discuss the reduction of their tariffs unless we are prepared to discuss ours. In my view, we could best achieve the objectives of the business community if we were to have tariff authority, both for the new round and for other negotiations such as bilateral or plurilateral free trade agreements.

CONCLUSION

Collaboration between the Congress, the private sector and the Administration in the formulation and execution of United States trade policy is essential if American industries are going to be able to compete in an open and fair international trading system.

In pursuing our objectives for the new round of multilateral trade negotiations, we must work together, more constructively and more intelligently than in the past, to demand a higher standard of performance from the international trading system.

The new round is our path to more competitiveness, more trade, more jobs and more growth in the next century. If we aim too low or restrict the agenda that we are willing to take up ourselves in the negotiations, we are sure to fail. If we work diligently, aggressively and cooperatively, the United States can succeed. I pledge to you that I will do my utmost to ensure that we do.

Senator DANFORTH. Thank you very much, Mr. Ambassador.

The early bird list is Senators Long, Heinz, Roth, Danforth, Baucus, and Moynihan.

Senator Long.

Senator LONG. No questions at this time, Mr. Chairman.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Mr. Ambassador, in my opening comments I mentioned the question of analysis of the benefits of the last round; Let me ask you, has any analysis been done on the trade on the United States of the Tokyo round, particularly with respect to the tariff reductions and the dumping and subsidies codes, Government procurement code, and standards code?

Ambassador YEUTTER. I indicated just a bit earlier, Senator Heinz, that the United States probably has done an inadequate job of critiquing itself on all of these negotiations in the past, including the Tokyo round. And that is clearly a legitimate question. We ought to do that not only in GATT rounds but even in major bilateral negotiations. And it seems to me that we ought to build that into the process.

I am sure there has been some critiquing done, but my hypothesis, Senator Heinz, would be that it is grossly inadequate.

Senator HEINZ. Well, what I am driving at is not just the question of whether our negotiating tactics and strategy were A− B+ but whether the results of what we achieved, whether or not we might have achieved more, in fact, resulted in a net plus or a net minus for the United States in international trade.

I assume your comment is: We don't have that information either.

Ambassador YEUTTER. To my knowledge, we would not have it in a comprehensive fashion, which is what you are really articulating.

We ought to have it. I have no disagreement with your point.

Senator HEINZ. If we said to you, Mr. Ambassador, before we consider giving you fast track authority we ought to have that analysis, would you think that was a reasonable or an unreasonable condition?

Ambassador YEUTTER. Well, I would say that, Senator Heinz, that it is certainly a legitimate request, related or unrelated to fast track authority. I would be happy to try to see if we could do an analysis for you relatively soon totally unrelated to the legislative picture because it seems to me it is a legitimate request.

At the same time, I would say to you that I certainly would not want us to hold up a new GATT round or fast track authority or anything else based upon the results of the last negotiations because I would consider those not to be relavent to what we might do in the future.

Senator HEINZ. It sounds almost like what you are saying is that your request for fast track authority is nonnegotiable.

Ambassador YEUTTER. Well, what I am saying is that I have self-confidence in how well we will handle the next negotiating round, Senator Heinz. And, therefore, I would not wish to have my hands tied because of what someone in the past did or did not achieve.

Senator HEINZ. You know the dumping and subsidies codes have really been more than somewhat disappointing to many of us. Are you confident that we can correct those flaws in negotiation?

Ambassador YEUTTER. Senator Heinz, there is no question that one of the major shortcomings of the Tokyo round was the negotiation of the subsidies code.

We have no choice, in my judgment, but to attempt to correct those shortcomings in a new GATT round. That would be a high personal priority for me.

As you might expect, I have a great deal of interest in that because of my agricultural background. It is agricultural export subsidies that have been particularly devastating to this country, although your interest may be heavily oriented toward the industrial side where subsidies are also a big problem.

So in both cases we have ample motivation to try to make correction, Senator Heinz.

Senator HEINZ. Let me——

Ambassador YEUTTER. As in the antidumping code, that has different demensions to it. But certainly that has its shortcomings as well.

Senator HEINZ. One last question before my time expires.

Several members of the Banking Committee have recently corresponded with you concerning liberalization of the international legal services industy in Japan. That includes myself. We understand that following your negotiations, the Diet is now considering legislation on this subject. And we have been informed that this legislation is not consistent—not consistent—with Japan's commitment in its July 30, 1985, action program; rejects all five of the major requests of the foreign business community in Japan; and, in fact, is opposed by the American Chamber of Commerce in Japan and the European Business Council, which is a similar organization.

Is the U.S. position that we support that legislation? If so, why? And if not, are you prepared to communicate our Government's opposition to the Japanese immediately since the legislation is being considered, as I understand it, later today?

Ambassador YEUTTER. Well, I would answer it, Senator Heinz, by saying that we would neither support nor oppose that legislation because that is a decision for the people of Japan to make.

Senator HEINZ. Let me rephrase my question.

Is it your position that that legislation represents any kind of adequate fulfillment of the commitments of July 30?

Ambassador YEUTTER. Senator Heinz, we believe the picture is more optimistic than might be painted by those particular comments for some reasons that I would rather not discuss publicly but would be happy to discuss privately. But let me respond by saying that there has been a great deal of discussion between the two governments on that subject and a great deal of discussion with the legal community in the United States, which is very much divided.

Suffice it to say that our general view is that that legislation, though far from adequate in the long term, is a significant step forward and one that is worthwhile taking. We would obviously like to see a great deal of additional progress in the future. But as I said, we are more optimistic about the ultimate outcome of that

legislation and its implementation than might be perceived by some others.

Senator HEINZ. Well, that really clears it up. [Laughter.]

Ambassador YEUTTER. Sorry about that.

Senator HEINZ. Thank you.

Senator DANFORTH. Mr. Ambassador, you mentioned in your opening statement that there was, according to you, an agreement at the economic summit that agriculture should be included in new round discussions. Is that what you said?

Ambassador YEUTTER. No. Mr. Chairman, there was no attempt at the summit to talk about the inclusion——

Senator DANFORTH. It was left out of the communique, as a matter of fact.

Ambassador YEUTTER. Yes.

Senator DANFORTH. Which would indicate to me that at least some of the countries—and I think I could guess which—objected to the inclusion of agriculture in new round talks.

Ambassador YEUTTER. Mr. Chairman, there is much more to be optimistic about in that picture also than might have been indicated either in the communique or in some of the follow up media reports.

A particular reason that agriculture was not included in the communique was that the discussion was held during the so-called free time in the summit. It was not on the formal agenda, and no attempt was made to include any language on agriculture in the communique.

But the discussion in the free portion of the meeting went very well. It was led by the President. And my impression from visiting with him, and from his briefing upon his return, is that there was a great deal of unanimity on the point that this was an issue that was reaching something like crisis proportions internationally and simply had to be dealt with by the countries at large. There was no specific discussion—at least if it was it was only peripheral—about the inclusion of agriculture in the new GATT round. That may have been implicit in the discussion——

Senator DANFORTH. There was a general discussion about the need to do some thinking about agriculture, but there was no known discussion, and certainly no agreement about including agriculture as a topic within the new round.

Ambassador YEUTTER. There was no attempt made to achieve that kind of specific consensus at the summit. But, Mr. Chairman, I am very confident that agriculture will be on the new agenda of the new GATT round. We do have a major difference of opinion with the community, as you probably know, with respect to whether all agricultural issues must be dealt with within the Agriculture Committee or whether they can be dealt with in other portions of the negotiations as well. Our position is that we ought to be able to deal with agricultural trade issues anywhere in the negotiations. If the community disagrees with us, then we are going to have to fight that one out over the next several months.

Senator DANFORTH. Mr. Ambassador, some countries have taken the position that until an agreement is reached in the new round, there should be a standstill of protectionist measures or enforcement measures. My concern is that if there is a new round, the

effect of the standstill will be that the actions commenced last fall with respect to enforcement of section 301 would be terminated; that any enforcement of antidumping laws would be terminated; and that generally the commendable initiative taken by the administration last year would be at an end.

Could you tell us whether this could be a concern?

Ambassador YEUTTER. We would never agree, Mr. Chairman, to that definition of a standstill.

We believe conceptually that there ought to be a standstill accord among the GATT members as we begin that negotiating process, and that there also should be in accord on rollback; that is, we not only ought to preclude the adoption of new trade-restrictive measures as the negotiations unfold, but that we also ought to begin to phase out trade-restrictive measures during the course of the negotiations.

Senator DANFORTH. Would that include retaliation against unfair trade practices or enforcement of the law?

Ambassador YEUTTER. It would not, in my judgment. And we will clearly take that negotiating position in Geneva and we will sustain it.

Senator DANFORTH. And beyond your negotiating objective, what will be the position of the administration pending any agreement? Will the administration take the position that it went too far last fall, and that really we are so anxious to reach some agreement that we are not going to enforce the antidumping law, and we are not going to enforce section 301?

Ambassador YEUTTER. Senator Danforth, there is no discussion whatsoever of doing anything of that nature.

Senator DANFORTH. Whether or not there is discussion, do you believe that will be the policy of the administration?

Ambassador YEUTTER. Well, the policy of the—let me answer it this way.

Standstill, to us, means actions that are taken under safeguards clause—article XIX of the GATT—or under the escape clause provisions of U.S. law.

I would exclude from the definition of "standstill" actions that are taken under the provisions of law that you have mentioned.

Senator DANFORTH. Antidumping, or 301?

Ambassador YEUTTER. Yes, sir.

Senator DANFORTH. And since 301 is not enforced by the administration anyhow, it would not be any change of administration——

Ambassador YEUTTER. Senator Danforth, we have gone through that many times. You must look at the record.

Senator DANFORTH. All right.

Senator Baucus?

Senator BAUCUS. Mr. Ambassador, does the administration want GATT negotiating authority passed this year?

Ambassador YEUTTER. We would like it, Senator Baucus, as you know, as soon as we can achieve it. It is not imperative that it be provided this year, because we can continue to negotiate without it.

As you know, the nontariff measure authority expires in January of 1988. So we can certainly continue negotiating in that area which will be the heart of a new GATT round until January of 1988. And for that matter, we could negotiate beyond that if neces-

sary without the authority. Obviously, we have to have the authority before we can bring an agreement back to the Congress.

At the same time, Senator Baucus, clearly, our negotiating partners will feel more comfortable if we have the negotiating authority than if there has to be an international question mark about whether the Congress will provide it for us.

So we would be delighted to have it this year, both in terms of an extension of nontariff measure authority and in terms of tariff authority as well. But it depends. You know, our evaluation of that kind of legislation would clearly depend upon what else is attached to that authority.

Senator BAUCUS. So if I understand you, you are saying you would like to have authority but you would not like to have Congress pass some of the legislation that is now pending. And if any of that legislation might include GATT negotiating authority, you still do not want that package passed this year.

Ambassador YEUTTER. Well, if I may shift to the other House of Congress as an example. You are aware of the bill that is emerging in your sister entity. That bill does have negotiating authority for us for a new GATT round, but it also includes a litany of provisions that are just totally unacceptable to us; to me, at least. I do not wish to speak for the President this morning, but, to me at least, those other provisions are overwhelmingly persuasive in determining whether or not it should become law. That is regrettable, but——

Senator BAUCUS. So your answer is that you do not want to see trade legislation passed this year of that kind even though it might include GATT negotiating authority.

Ambassador YEUTTER. We are hopeful, Senator Baucus, that a more responsible attitude will prevail on the Senate side, and that what might emerge here would be a package that would be satisfactory to us.

Senator BAUCUS. This reminds me of where we were on the question of Canadian fast track authority, where we have been for the last 2 or 3 years. Frankly, I do not see any improvement. I do not see the administration considering any legitimate measure in the Congress. The administration simply calls it protectionism. The administration espouses free trade; it puts on a white hat. But any measure the administration does not like is labeled black protectionism.

We all know that the truth is somewhere in between.

This administration is not purely a free trade administration. Look at what it has done in the currency market, in the exchange market. We all know it has done a 180 degree turnabout. It is just starting to intervene one way or another. So it is not free trade.

At the same time a lot of trade legislation that we pass is not protective, it is trying to force other countries to knock down their unfair trade practices. The truth is somewhere in between.

It seems to me that we would do a lot better if the administration were to be more forthright with us and try to work with us to try to pass legislation. But you just a few minutes ago cast a pall on the House bill. You phrased it in negative terms and pejoratively in ways that makes it clear to me that you don't like us. You did not cast it in terms of trying to work with us in a way that makes

sense. It is just like the Canadian free trade agreement issue; you know that 10 members of this committee—half of this committee—opposed moving on that fast track at this time, largely because this committee is not convinced that the administration wants to meet us half way.

We are not asking for all the marbles. We are just asking for some of the marbles. And the administration wants to take all of the marbles home. And it just seems to me that if we are going to make any progress here, if the administration is going to get the authority it wants, it is going to have to meet the Congress half way.

Our Founding Fathers set up two branches of the Government, an executive branch and a legislative branch. As you well know, the fact of the matter is that our Founding Fathers put the trade policy in the hands of the legislative branch, not the executive branch. We have a constitutional responsibility here, and I am frankly quite disappointed in hearing the same litany over and over and over and over again—just words instead of a good faith effort to try to work this thing out.

Ambassador YEUTTER. If I may, I would like to respond to that for just a minute, Senator Baucus, because, again, I would hope the situation is a bit more optimistic than that.

There is no hope of doing this on the House side because the process has been politicized there. I do not believe that trade policy should be politicized, but that was a decision that was made by some in the House.

I happen to think that our trade policy should be handled in a bipartisan way, and I hope that will occur on this side of the Congress. If it does, then perhaps, there is an opportunity to make more progress than your statement might have indicated.

We have stated on quite a few occasions, Senator Baucus, that a number of elements of constructive legislation that we would like to have from the Congress, not only the new round authority, but certainly some additional legislation in the intellectual property area, some additional legislation on antitrust laws, some additional legislation in the war chest on the export credit side.

We have even talked about some ways to additionally strengthen section 301, and even possibly some language in section 201. So there are a number of provisions of the law that we would be delighted to have in legislation.

Obviously, what has been introduced here goes considerably beyond that, and that is where we have a significant difference.

You would probably go further than we would, Senator Baucus. Whether the gap is so wide that we cannot close it, or whether we should be more optimistic than that and attempt to close it, time will tell.

I am certainly willing to sit down to discuss the issue with you or anybody else as we go along to see whether there is a chance to bridge that gap in the Senate.

Senator BAUCUS. Mr. Ambassador, I am not talking about that. I am talking about a public label. For example, the President yesterday labeled the House bill protectionist. He tried to label it in the most negative way he possibly could. Public labels set the tone. And the degree to which you, and the President, and Secretary

Baker label measures in a negative way tends to block progress. On the other hand, the degree to which you label measures in a way extending the olive branch to try to work things out helps; that is positive. That moves us forward together as Americans.

So the fact of the matter is we should not fight among ourselves as Americans so much. We should work together, because the whole issue here is America, vis-a-vis Japan, Canada, and other countries. And for the life of me, I do not understand why the administration does not understand that and does not want to work with the Congress more.

Ambassador YEUTTER. I think the administration understands it very well, Senator Baucus. I am trying to be positive with you this morning, as a matter of fact. But if you have read the House bill, I believe that you will be as appalled as I am with its content. I do not know how I can be positive about a bill that violates as many GATT provisions as that does, just using one example.

Senator DANFORTH. Senator Long.

Senator LONG. Mr. Yeutter, I don't know how the administration can take such an unbalanced view of some of these things. Now, all of us on this committee, I believe, or 90 percent of us certainly, are concerned about the fact that this Nation's policies are in the process of making this Nation a debtor Nation, the biggest debtor Nation in the world within a year. The Federal Reserve Bank of New York estimated that in 1990 we will be a trillion dollars in debt to the rest of the world, with trade policies being what they are. And there is no way we can compete with the kind of situation we have with timber in Canada. You can say otherwise to yourself if you feel like it, but the way Canada does business in lumber, they are not a market country.

They sell their timber off of government land, and some of it is virgin timber, I suppose. Anyway, it is good timber being sold off those lands up there in Canada. They have huge amounts of it. And they are not even including the cost to reforest. They just sell it off; they just denude the real estate and sell the timber for about 10 percent of what it cost Americans to produce, especially private land owners in the United States, to produce. I see that you are nodding your head. You know it to be the case.

Then when we say, "Well, something has got to be done about some of these things," about the best we can get from the White House is somebody being accused of protectionism.

Now, one very high authority in the White House I discussed this matter with when we had the Canadian matter before us, and the person in the White House—his name I will not mention—referred to Senator Danforth as a protectionist. Now, Senator Danforth fought the battle against domestic content law. He fought the battle against the textile bills. And, incidentally, on domestic content he has automobile manufacturing concerns in his State, and he fought that battle anyway. It makes you wonder up here just how unreasonable can the other fellow be in not seeing our position. We are very concerned that trade has to be a good deal for both sides or it is not a good deal for either side.

Now, when you let them do the kind of things they are doing to us in timber up there, can you have any doubt about the fact that

if we are looking after our citizens down here that we have to react against that?

Ambassador YEUTTER. Well, Senator Long, that is obviously why we are in the middle of negotiation with the Government of Canada on timber right now.

Senator LONG. But now let me tell you something. I have talked to officials from foreign governments about trade. I have talked to the Japanese, for example, enough to know that if somebody is speaking for this Government, be it the President or be it you at the President's authority, and he tells them: "Here is what you are going to have to do. Otherwise, we are going to have to recommend legislation up there, or support legislation, that will go even beyond that," then I am satisfied they will do it. I have had outstanding Japanese ask me the question: "What are we going to have to do?" Well, it doesn't do any good for a U.S. Senator to tell them that. It takes somebody speaking for the administration, the President.

I am willing to be regarded as one of the guys in the black hats up here that is going to act if you do not act.

Now you persuaded a lot of those big timber companies to ask us to vote on the administration's side on the "fast track" question about a free trade agreement with Canadian. I assume that in persuading them you told them you were going to help them. What are you going to do?

Ambassador YEUTTER. Obviously we cannot divulge negotiating strategies in public here, but I can tell you that a lot of things are happening on that front, even including while we are sitting here.

Senator LONG. Well, it seems to me that you folks should just take a nice vacation. You need one; you are working hard up there and the President is working hard. Just sort of cleanse your mind, think of other matters for a while. The President has plenty of other matters to worry about. Just let Congress do its bit. After you get back from about a 30-day vacation, Congress can straighten this matter out, and then you will be able to deal. Foreign officials will regard you as a nice fellow. You can say, "Well, now, you see, we told you something was going to happen. Now that it has happened, and we are going to do what we can to help."

I doubt if that would even be necessary. If somebody speaking for the President said, "Now, look, we have had all of this that we can take. Either you have to come to terms with us or we would have to cooperate with the Congress in passing legislation." A failure to get your cooperation means that we have to act unilaterally.

Now without compromising I don't see how we are going to do it.

In fact, the reason the Japanese haven't done anything meaningful is because they haven't been told that they have got to. I think they will cooperate. But they are not going to do it unless they see you really mean business.

Now sometime ago, a Japanese prime minister came over here, and the President really talked a tough game to him. It may have been Jimmy Carter at the time. But the President talked a tough game to him, that something has got to be done. And so he went back and announced that he is going to do something to help solve this problem. The Japanese all jumped on him as though they were going to impeach the poor soul because they were convinced he

didn't have to make any concessions. And so they wouldn't let me go through with even what he said he was going to do. We got no action. The reason was the President, probably Carter in that case, didn't follow through. However, I don't have any doubt that if you do the kind of thing Secretary Baker has done now with regard to the currencies, you will be successful. All this time he told us that until we balance the budget, nothing can be done. Otherwise, interest rates will be too high, and the dollar will be far too high, and all that.

Now, Secretary Baker is showing us that something can be done about the dollar. How long is it going to take you to prove too that something can be done about the rest of this mischief up there?

Ambassador YEUTTER. Well, there is no question we need to work on both fronts and we are working on both fronts at the same time. Doing it in the trade arena is a lot more difficult than doing it in the monetary arena because the trade arena is much more adversarial.

What Secretary Baker has done, which is truly a remarkable achievement nonetheless, is a coordinating and cooperative kind of venture. And it is much easier to persuade one's international economic partners to do things in a cooperative and coordinate way in a broad economic policy than it is to persuade them to do things in the trade field that they consider to be contrary to their own self-interest. And we are dealing with a confrontational adversarial environment on trade in a whole host of issues, whereas it is far less confrontational and adversarial, if it is confrontational and adversarial at all, on the monetary front.

Now, apparently there are some differences of opinion on macroeconomic policies too. But the dimensions of those two issues internationally are very, very different indeed. In trade, we are seeking to operate in a far more aggressive way than the United States has in the past.

You may have seen, Senator Long, some of the media reports in Western Europe that accused me of being Rambo-like in my approach to the United States-European Community agricultural dispute. I am prepared to accept that label because it seems to me that we do have to take a very strong stance in that area. But that indicates the fact that nobody is going to roll over and play dead for us on trade issues. It is a tough, tough go.

Now there clearly are ways, Senator Long, in which you all can be helpful in that process. You are mentioning that fact right now. I recognize that very well. And I hope that you will be helpful as we go along.

But let's make no mistake about it. To do what we would like to do in international trade over the next few years is going to require a lot of confrontations all over the world.

Senator LONG. I did not know about somebody in Europe calling you "Rambo," but I just hope some day I will see somebody over here calling you "Rambo." That would be music to my ears. [Laughter.]

Ambassador YEUTTER. Good.

Senator LONG. Thank you.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, this is as much a conversation with the committee, I think, as with Mr. Yeutter, and I don't know if I have anything very useful to add here, but there is one thing I would like to say and see if you don't agree. But I am trying to think, what is the problem between the administration and this committee? And I have been on both sides of the negotiations. I have been on this committee for 10 years, and I was involved with the Kennedy round and the negotiations of the long-term cotton and textile agreement, which was the first quantitative restraints the United States placed on trade after that long run up from Cordell Hull and the postwar period for the first time with this Congress, that a condition of getting a new round of negotiations would be to impose quantitative restraints. And it has just been in sequence ever since.

And if I could tell the chairman a story—it isn't long—I was Assistant Secretary of Labor for Policy, Planning and Research, and I had a very nominal responsibility for the Bureau of Labor Statistics, by which I mean they allowed me to indicate that I was in charge of that, which was very thoughtful of them. But I knew better, and they knew I knew and it worked out.

But the time came when Euron Clagg, that great old gentleman, was going to retire, and a new Commissioner of Labor Statistics needed to be found. And eventually the administration asked the professor of economics, at Princeton, but a younger assistant commissioner came to see me, very properly, very legitimately, and said he would like to be considered for the job of commissioner, which was entirely within his rights to do. And I liked him a great deal, but I had one problem with him. Now this is the mind set of a young—not that young a man, just—almost 25 years ago. My problem was that all that fellow did in the Bureau of Labor Statistics was measure productivity. And he was like the fellow who measured the Consumer Price Index. And productivity was always up 3 percent. And what was so hard about that, it seemed to me? Very simple to do. You just kept measuring; it always came out the same. Just like, you know, we would wait breathlessly for the unemployment data, but when the CPI came in I would just take it and put it in one box into the other. And Euron Clagg would say, I know it's not interesting to you, young man, but wait 1 year until you see the CPI rise 40 points in 1 year. You will find it very interesting.

But inflation was over, and productivity was given. Now what has happened since is our productivity has collapsed. It has just collapsed. And that is why we are having trade problems. And I have sort of a rule that the minute when the Government appoints a committee on productivity, it is too late. I mean, I think that rule is on a fix. You can tell it.

We appointed the young commissioner on productivity, and 18 months ago they reported to the administration. The administration has done nothing and it can't because—and that's so deep in the economy and in the economic culture, and the political culture. So that's what happened to England. What happened to England between 1900 and 1950 was only a difference of, you know, decimal points in productivity between that, England and France—I mean,

England and Germany, but in the end Germany was the more powerful country.

Isn't that where the problem lies?

Ambassador YEUTTER. That's very perceptive, Senator Moynihan. Sometimes we have a chance to spend all our time, or we have a tendency to spend all our time troubleshooting and dealing with day to day issues, and we fail to look at the underlying——

Senator MOYNIHAN. If I fail to gain the attention of the chairman, but I wonder if you wouldn't talk to this committee more in terms of, look, there is something fundamental. We are not as productive as we used to be with relation to our trading partners. The Japanese passed us in iron and steel output per man-hour about 1974, something like that. Right?

Ambassador YEUTTER. Yes, sir.

Senator MOYNIHAN. That means they are just, you know, they are just better at it.

Ambassador YEUTTER. They are in a substantial number of very major products, Senator Moynihan. And, of course, that challenge is now passing to Korea and Taiwan and a number of other countries where some products are even better at it than the Japanese are.

Senator MOYNIHAN. Yes.

Our productivity is running about 0.8, something like——

Ambassador YEUTTER. That is about correct.

Senator MOYNIHAN. Yes.

Ambassador YEUTTER. It was a bit better than that a year or so ago and now has dropped back down again.

Senator MOYNIHAN. Yes.

My time is up, but if you came before this committee just a few more times and, we'll say, you know, you are looking for quantitative—you are looking at issues of basic economic productivity as if they had something to do with the misbehavior of foreign governments. And that won't get you anywhere. It also would help sometimes if you would probably say that free trade is the doctrine of the most productive economy.

When the British were the most productive economy they were for free trade. Then when we were the most productive economy we were for free trade.

My last question, since the chairman is not watching the clock. Now just 1 second. I have something I have to ask.

Would you not agree that—I very much agree with your characterization of that bill in the House. It is a protectionist bill and it's a disaster. But what do you think about the Danforth-Moynihan bill? [Laughter.]

Senator MOYNIHAN. It has 34 cosponsors, which is bipartisan, which gives the administration the right to proceed with the next round, and gives you some fairly specific negotiating objectives. How do you feel about that?

Ambassador YEUTTER. Senator Moynihan, I will provide a magnamimous answer this morning. My answer, given in all magnanimity, is that all things are relative, and relative to the House bill it is magnificant.

Senator MOYNIHAN. Now, Mr. Chairman, did you hear that?

Senator DANFORTH. The hearing on S. 1860? I am delighted to have the Ambassador testify on it.

Ambassador YEUTTER. I should go on to say relative to the administration's standards it may not be quite that magnificant.

Senator DANFORTH. Senator Grassley.

Senator GRASSLEY. Ambassador Yeutter, I am sure you would expect me to talk about agriculture. And it is my understanding before I got here that Chairman Danforth brought it up in regard to the next round of GATT will agriculture be on there. But I want to quote from the Financial Times last Friday. "It was significant too that in the Tokyo summit statement agriculture was not included in the list of topics for a new round." Then a couple of paragraphs later it goes on to say, "The U.S. had previously argued that agricultural subsidies had to be dealt with in the new round."

But after the Tokyo summit, Mr. James Baker, the Treasury Secretary, said only, "that the inclusion of agriculture would be discussed at the September meeting of trade ministers."

My question—but before you answer I have got a couple of other things I want to say—is, is it going to be on the agenda at GATT? Or whether or not it is going to be on the agenda still a matter of discussion. And if the latter is the case, then that takes me back to November 1982 when we were in Geneva on consultation at that time and review. The European Community didn't even want to talk about it.

Finally, toward the tail end of the conference we eventually got it visited about. But the argument then was, you know, we were only three years removed I guess from Tokyo at that time, and so agriculture wasn't settled enough to even review it.

And now by the time there is a second GATT round it will be 6 years after Geneva, 9 years after Tokyo, and it seems to me that it ought to be part of the agenda. And, more important though than that, is who is speaking for this administration on what is going to be on the agenda at GATT? Now, is it the Secretary of the Treasury? Or is it Ambassador Yeutter? Or, let me say, the Secretary of State, because yesterday I made a statement in this meeting, or in this hearing, that I was very pleased that the Secretary of State had sent the signal to the European Community 2 weeks ago when he was there for a conference; that the European Community had better settle this agricultural issue with the United States or there is going to be retaliation.

So, you know, who's speaking? And, more importantly, the fact that we have got three voices—and maybe there is even more—but at least three voices on trade issues being quoted of what is going to be on the GATT agenda or what won't be. What sort of a signal does that send? And it seems to me like we really don't have a united voice for this administration.

Ambassador YEUTTER. Senator Grassley, we had some earlier discussion this morning before you came in on this point so I will just summarize it quickly.

With respect to the summit, the only reason that agriculture was not included in the communique was simply because the discussion took place in the free flow portion of the meeting rather than the formal—the discussions of the items on the formal agenda. So there wasn't any attempt to work it in the communique. And the

media did not understand that fully, and that is why it was to some degree misreported after the meeting.

Senator GRASSLEY. Well then it is on the agenda for the next GATT discussions.

Ambassador YEUTTER. Well, nothing has yet been approved for the agenda on the next GATT meeting. That will be done in Punta-del-Este, Uruguay in September.

What is being done now is that agenda is being worked on in Geneva in the so-called preparatory committee that is meeting essentially every day. That committee will make its recommendations as to what the agenda items should be on July 15. I have every confidence that that committee will have agriculture on its list of agenda items.

Senator GRASSLEY. Well, is it a position of this administration that agriculture should be on that agenda?

Ambassador YEUTTER. Absolutely. Absolutely. Unequivocally. Unequivocally.

And in my judgment, that is not an issue of controversy with the European Community either. The Community is prepared, in my judgment, to have agriculture on the agenda.

The difference we have with the Community, Senator Grassley, is over what that committee is going to do once it starts work. The Community's position is that it should attempt to resolve all agricultural trade issues, or trade policy issues, and that none of the other negotiating groups in the new GATT round should have any jurisdiction or authority in the agricultural area at all.

We vigorously disagree with that position, and that is where the debate is taking place, because on subsidies, for example, we also want to talk about their export subsidies and the subsidies code deliberations, not just in the Agriculture Committee. And so there is where the debate occurs.

With respect to who is providing instructions, Senator Grassley, all instructions that go to Geneva come out of the Office of the U.S. Trade Representative.

Senator GRASSLEY. They do?

But Secretary Baker's statement then is not a statement of policy, right, of where we are on—whether agriculture is going to be included or not?

Ambassador YEUTTER. Well, Secretary Baker has no disagreement with that policy, Senator Grassley. So I assume that his comments were taken out of context in some manner.

Senator GRASSLEY. Mr. Chairman, I have got some constituents that are related to the Ralston Purina Co. Could I ask a question for them?

Senator DANFORTH. I would hope you would. [Laughter.]

Senator GRASSLEY. And this is in regard to pet food. This is in regard to the Japanese. They have a pet food tariff of 12 percent, and that is supposedly there because our exporters ship the products in air tight containers for health reasons. Now the Germans also export the same product in heat-sealed containers, and have the advantage of a zero based tariff. Obviously, I want to ask you about the logic of that, and particularly I would hope that it doesn't make any logic to those people negotiating for us. And if so,

how can we best convey this to the Japanese officials and how long do you think it would take to get this matter resolved?

Ambassador YEUTTER. Senator Grassley, that issue crossed my desk a couple of weeks ago, so I am generally familiar with it.

Our people are now working on it, and we will be glad to give you an individual report on it as the negotiations—discussions or negotiations proceed. I would have no idea how long it would take to resolve it. It does not sound to me like it is an issue that would be all that controversial. But I would not want to prejudge it at this point. We will keep you informed on how that unfolds.

Senator GRASSLEY. Are we going to let the Japanese bar American lawyers from practicing there?

Ambassador YEUTTER. We talked about that a little bit earlier too. They are essentially barred now, of course. And what we are trying to do is get them to open up that market, which is one of many services issues that we have with them and a lot of other countries in the world.

The action that they are proposing to take and their Diet, we feel, Senator Grassley, is a step forward, but only the first step. They are still a long way to go to truly open up that market.

Senator GRASSLEY. Thank you.

Senator DANFORTH. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman. Ambassador Rambo, it is nice to have you here this morning.

Ambassador YEUTTER. Thank you.

Senator SYMMS. Or is that Senator Rambo here from Iowa? But I appreciate the clarify and the cooperation that I feel has derived in the last year or so of a better bipartisan one voice put forward for the United States. I think that is really critical as we go into the next round of GATT agreements, that we do have a unified front and a unified voice as the best we can all agree with our little idiosyncrasies of special things that we are particularly interested in.

You really probably—maybe you do and maybe you don't have a vote on this, but the ITC, it is my understanding that they are about to make a recommendation, or have made a recommendation, that a 35-percent tariff be imposed on shakes and shingles. Are you aware of that?

Ambassador YEUTTER. Yes; that is a section 201 action, Senator Symms.

Senator SYMMS. Yes.

Ambassador YEUTTER. It is on my desk right now.

Senator SYMMS. So will you get a ruling on that?

Ambassador YEUTTER. Yes; that will go to the President within the next few days. The 60-day deadline expires sometime next week. So there will be a Presidential decision on that case sometime within the next week.

Senator SYMMS. Well, before I ask you what your opinion of it is I would just like to encourage you to say that in this negotiation of the Canadian timber question, even though this is a small portion of the timber industry, but I think the symbolism of what we do on that—we have, after all, lost about half of the mills. We are down to about 250 mills now. We did have over 400. So I think they have made a good case of injury.

I would hope that the administration would use this as an opportunity to strengthen their bargaining position with the Canadians on the overall timber issue, which you have been most cooperative on. But what is your attitude about that?

Ambassador YEUTTER. Well, Senator Symms, as much as I would like to be responsive, I would rather not comment now because I have the responsibility of making a specific recommendation to the President within the next few days. And then the President, of course, has final disposition authority. So I think that is something we had better work out before we say anything public.

Senator SYMMS. All right.

Well, I will leave my proxy to vote to impose a tariff on them, and then that will get their attention. And it will help you in later negotiations. That is all I would say.

I don't have any further questions. I thank you very much for being down here. And I want to compliment you on your unequivocally answer that you made to Senator Grassley. That is most important to my interest also of my State.

Senator DANFORTH. Senator Dole.

Senator DOLE. Thank you, Mr. Chairman.

I haven't had an opportunity to read your entire statement, but I wanted to be here just briefly to indicate not only our interest but our concern in a number of areas. Obviously, there are many concerns, but some of us from agricultural States were particularly disappointed there was no public discussion at least or no statement made on agriculture in the Tokyo summit. We know it is a very sensitive issue. We know probably the Europeans did not want it discussed, but they may not want it discussed in a new round of GATT negotiations either. And it seems to me that it is rather critical, not only in the Midwest but also in all the so-called farm States. So I would hope that that is going to be a matter of some priority if, in fact, there are a new round of discussions.

Ambassador YEUTTER. It will be, Senator Dole. And as a matter of fact, what happened in Tokyo was much more—provides a lot more cause for optimism than the immediate reports would have indicated.

As you may know, the President personally led that discussion in Tokyo, and a remarkable degree of unanimity prevailed by the time that discussion concluded. Not with respect to how to solve the agricultural problem globally but in recognition of the fact that it is a major problem worldwide, important to every one of the countries represented at the summit, including the European Community countries, and it is something that has to be done soon to extricate all of us from this problem.

The President indicated when he came back and did a briefing to us on the summit that he felt very comforted by the progress that was made in that area. He expects to put it back on the agenda for the next summit meeting next year. And he felt that it certainly provided ample foundation to move forward now in the new GATT round with a full-scale discussion of agricultural policy.

And as you probably know, Secretary Lyng and I raised this issue with our European counterparts in Paris a couple of weeks ago just at the conclusion of the OECD Ministerial. We spent about 2½ hours with Commissioners De Clerq and Andriessen and our

two counterparts, the entire time being devoted to a long-term look at agricultural policy questions. And that was really the precursor to the discussions in the Tokyo summit.

So between those two meetings, my judgment is that we have a lot more focus now on agriculture, the big picture, than we have ever had before.

Senator DOLE. This is not directly related to this hearing, but I know you have been aware of, and maybe you can give us some information on what the Russians may or not do because of the nuclear disaster. There have been reports of maybe looking for 20 million tons of grain. They may not be looking to the United States. I am wondering if you have any factual information if, in fact, we have made contact with the Soviet Union. We have a lot of grain that is available. They are not very happy with our export enhancement program because they do not benefit from it.

Ambassador YEUTTER. Yes.

Senator DOLE. But I guess the question is: Will there be a new need for grain in the Soviet Union because of the disaster they have had?

Ambassador YEUTTER. My own judgment, Senator Dole, and I have not been as close to the situation as Secretary Lyng has, but my own judgment is that it is still too early to tell what the magnitudes will be. But obviously that tragic incident is not going to help their agricultural situation in any way. So from our standpoint, whatever damage takes place is going to be a net plus in agricultural trade. Even if they do not buy it from us, it will take some of the overhang off of the world market, and we will all benefit indirectly, if not directly. So it certainly is a positive element, agriculturally, but not a significant positive at the moment. I suspect it may be a considerable period of time, Senator Dole, before they really know what the long-term impact, and maybe even the short-term impact, of that accident will be.

Senator DOLE. Thank you, Mr. Ambassador.

I just want to thank the chairman for these hearings. And I know he has been chaffing at the bit for months to get the trade hearings, not only start them but to finish them, so we could move forward on the trade bill on the Senate floor. And we are prepared to do that. We may want to do tax reform ahead of that if that is all right with the administration. They may like to do a lot of things ahead of that, but I do believe the chairman is dedicated to doing something on trade this year, and we certainly want to be helpful. We would like to be working with the administration.

Ambassador YEUTTER. Thank you, Senator Dole. We are well aware of that. And we appreciate your personal interest in the topic, and appreciate your willingness to take some time out of your hectic schedule to come over and join in on this discussion.

Senator DANFORTH. I have a few additional questions for you, Mr. Ambassador.

First, this is a hearing on S. 1860 and S. 1837, and the provisions in those bills relating to a new round. Obviously, if you have any comments now that you would like to share, we would be happy to have them. If not, you might want to submit any comments in writing with respect to particularly the new round authority as it

is addressed in those bills, but also any other comments on those two bills.

Ambassador YEUTTER. All right.

We would be happy to submit a number of comments for the record, Senator Danforth. Since I did not do so as I began my testimony, perhaps I should add on the specific question at hand, negotiating authority. We would certainly like to see legislation that would provide permanent negotiating authority in the nontariff measure area. It seems inevitable that that is going to go on forever.

Senator DANFORTH. I don't know how many votes you would get on the Finance Committee. I can personally guarantee you it would not be unanimous for permanent authority.

Ambassador YEUTTER. Well, clearly, that is a decision that will have to be made in this body of the Government. But suffice it to say that we are going to be facing nontariff measure barriers in this country from now until the end of time. So at some point in time one must provide the authority to deal with those.

On the tariff side, it is somewhat of a different situation. As those become of lesser importance in the trade field, and certainly a finite time limit on tariff negotiating authority is in order, I would hope that the authority, however, would be of sufficient tenure that it would cover the probable length of the new GATT round, which I suspect could easily be somewhere in the 3- to 5-year range.

Senator DANFORTH. All right.

Any additional comments that you would have on those two bills and any features of them would be welcome, but particularly with respect to this morning's hearing, any comments that you have on new round authority would be appreciated.

Mr. Ambassador, I want to join in a concern that was expressed by Senator Grassley. And I have not been one who has supported the idea of a Department of Trade. But I do think that the vibrations I have been getting are that the administration has really been undercutting you and your office with respect to trade matters.

An economic summit has just been completed. You were not in Tokyo. You were here in Washington. It is my understanding that none of the trade representatives or trade ministers were in Tokyo.

And then there was the news story that you had publicly questioned whether, in fact, Japan was going to follow through with the Maekawa report, and whether it was going to attempt to follow through on stimulating domestic growth. And the news story was that Admiral Poindexter called you up, and said, in effect, "Don't say bad things about Japan." And the impression that I got from all of that, the fact that you were here, and he was there, and you were talking about a key aspect of the whole trade picture with Japan, and he was, in effect, calling you on the carpet, the impression that gave to me was to fortify an existing view shared by a number of people that trade is not a priority of this administration; that it comes second to foreign policy; that the big concern is to have warm relations with our allies, which is clearly a top concern for all of us. But that in the process, trade has been moved from the front burners. I mean, it is not even on the stove any more.

I would express to you the same kind of concern that Senator Grassley had about your role and the role of the USTR, and the fact that there is really some doubt that you are the voice for trade.

Ambassador YEUTTER. Let me just comment on that if I may, Senator Danforth, because this is an issue that apparently arises every time we have a summit.

What makes that matter difficult to handle is that the summiteers have agreed jointly that no more than two cabinet members will accompany the chiefs of state to the summits. So in every case, in every country, there has to be a judgment made as to which cabinet members those should be.

Now obviously that depends to some degree on what is on the agenda for that particular summit. But, clearly, the foreign ministers are going to be involved because that is just a natural function to be performed by a foreign minister. And in this case, as you can see what emerged from this summit, international monetary policy was a very major issue because of the desire to have a major agreement reached among the summiteers on—that would go beyond the G–5 arrangements of last fall.

So Secretary Baker was a very natural participant as well. When there are only two, then obviously everyone else is excluded. The other summitees, of course, have precisely the same dilemma, and that is just going to be a problem with every summit.

With respect to the other issue, it wasn't a dressing down that was involved by Admiral Poindexter. He was simply trying to find out what—how I had answered a question at a speech the prior day because of that question having been misreported in one of the Japanese newspapers. And all of this was happening in the middle of the night in Tokyo, and there was a flurry of media activity, and they were trying to clarify just what had transpired.

It was a grossly inadequate language translation that was either inadvertent or deliberate. One never knows about that. But he was simply trying to determine what had been said on that particular issue. So that was understandable under the circumstances because they had to be prepared to respond to that at the press briefing that was going to be conducted 2 or 3 hours later.

Senator DANFORTH. All right.

Well, the impression that I got from the news piece that I saw was to the contrary. And I was concerned.

Although it may be inappropriate to bring up a rumor at a hearing, word has reached me that the State Department is considering the appointment of an individual who would have the rank of Ambassador for the purpose of conducting the Canadian negotiations. This person would have an equal rank with Peter Murphy, who is to be our trade negotiator.

Do you know anything about that? Have you heard anything about it?

Ambassador YEUTTER. I am not aware of that at all, Senator Danforth. That may possibly relate to an anticipated proposal from the Government of Canada on the timber question. And that issue will arise later in the week. As you may know, the Government of Canada has asked for a few days to make a proposal to us on how to resolve the timber question. And it is possible that those two

issues are confused. But I am not aware of any such plans unrelated to timber.

Senator DANFORTH. Clearly, it would raise questions with at least some of us in Congress if the State Department was considering appointing an Ambassador for the purpose of conducting trade negotiations with Canada. It would not only be a ridiculous duplication of positions, but it would be much worse than that. It would be a clear statement that the State Department is moving into trade policy, and that trade matters are to be resolved as foreign policy questions.

Ambassador YEUTTER. To the best of my knowledge, that is completely erroneous.

Senator DANFORTH. All right. Well, I hope so.

Thank you very much, Mr. Ambassador.

Ambassador YEUTTER. All right. It is good to see you, Mr. Chairman.

[Whereupon, at 11 a.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

TESTIMONY FOR THE RECORD

SENATOR PETE WILSON

SENATE FINANCE COMMITTEE

SUBCOMMITTEE ON INTERNATIONAL TRADE

THE UPCOMING MULTILATERAL TRADE NEGOTIATION

MAY 14, 1986

MR. CHAIRMAN, I am pleased to submit a statement for today's hearing. Preparing a new multilateral trade negotiation obviously requires extensive preparation, and congressional hearings are an important first step.

Today's session will begin to provide U.S. negotiators with the input that they will need throughout these trade negotiations. In fact, establishing productive channels of communication between U.S. negotiators, the Congress, producers, exporters, importers and consumers must be a priority as we enter these new talks.

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Good communication makes better trade policy. That is why early last month, I held hearings in California on a variety of international trade issues, including agriculture and intellectual property rights. Those hearings provided me with excellent testimony from key players in international trade affairs. For example, the California State World Trade Commission and the California Farm Bureau witnesses who appeared at my Senate Agriculture Committee hearing in Sacramento provided valuable insights on priorities in a new round for agriculture. And representatives of the motion picture, record, and toy industries suggested a number of problem areas relating to intellectual property.

As the Committee will be devoting a separate hearing to intellectual property, in my statement I will concentrate on agricultural issues. However, I do want to indicate my strong support for the new round reaching an agreement that protects intellectual property -- both from piracy and from foreign protectionism .

In a new round of international trade negotiations, agriculture promises to be as contentious as ever. Agriculture has historically not fared very well in GATT negotiations. The danger always exists that agriculture can be offered as the "sacrificial lamb" to achieve non-agricultural concessions. For these reasons, agricultural interests must organize to defend and promote their objectives in a new round.

A high priority for agriculture in the new round is to improve the framework of the GATT, in particular the dispute settlement process and the Codes of Conduct. We must put some teeth into these mechanisms to gain sincerity and respect for their rules.

A major problem plaguing the dispute settlement process is the length of time that it takes to resolve a case. The dispute settlement procedure must be accelerated significantly. We could explore the possibility of using U.S.-established time lines, similar to those in our domestic trade laws, and apply those to the international dispute settlement process. In addition, establishment of permanent panels should be explored as a means of streamlining the panel selection process.

Procedural maneuvers are often used to subvert the intent of the process. One possible change to consider involves the procedure by which GATT panel reports are adopted. Rather than strict consensus, perhaps consensus minus the vote of the disputants is a viable option. A voting procedure requiring something less than unanimity could be explored.

Finally, the lack of compliance with the findings of the GATT is the most blatant problem. The GATT dispute settlement process is often totally ineffective, since it is virtually impossible for the GATT to penalize a nation for rule violation.

To make the process more fair, either the panel's findings should be binding or the disputants should be excluded from the panel report procedures. Once the GATT has accepted the verdict of one of its panels, there must be some enforceable time limit for the losing party to take action. Failure to comply would invite legitimate retaliatory action to counter the unfair practice.

Of course, a fundamental philosophical question underlies any changes to the GATT dispute settlement process: Is it to be a consultative, conciliatory process or will the Contracting Parties agree to abide by decisions made through arbitration and sanction powers granted to the GATT?

I fully realize that a move towards a more definitive role for GATT panels is not universally shared. For example, the EC often contends that the GATT cannot be compared to a court. They argue that it is a contract between ninety separate countries which still retain their national sovereignty. The EC feels that GATT panel reports should be taken as a basis for consultation and further negotiations -- "not as decrees from some imaginary World Court." Technically, this may not be an incorrect interpretation; however, until participants agree on the purpose and powers of the GATT process, we cannot expect dispute settlement to work.

On the subject of subsidies, disparate interpretation of what constitutes a permissible subsidy under the GATT has resulted in tremendous tension between the U.S. and the European Community. The importance of the elimination of trade-distorting foreign practices cannot be over-emphasized. Certainly, within the existing Subsidies Code, there must be greater clarity of the definition of agricultural export subsidy practices.

It is the term "equitable share of the world market" in the Subsidies Code that creates problems. This definition represents more of a goal than a standard. Many GATT members--and foremost among them our European competitors--do not agree on what constitutes an equitable share of the market or whether any market share gained through subsidies is necessarily inequitable. When rules are as loosely defined as for agricultural export subsidies in the Code, it becomes unrealistic to expect an offending party to accept dispute settlement findings based on such subjective definitions.

With the new trade round clearly on the horizon, we must assure that the needs of American agriculture are a top priority of our U.S. negotiators. Work must be undertaken now to catalog foreign market constraints by commodity and by country.

The U.S. must work now to develop a strategy to extract concessions from targeted countries, whether by offering additional U.S. concessions or by threatening to withdraw existing benefits. The United States should explore using leverage, such as withdrawal of benefits granted under the Generalized System of Preferences to countries refusing to grant improved market access to American exports.

With much attention being dedicated to expanding GATT coverage to encourage trade expansion, the agricultural community must remain diligent to assure that it not end up as a net loser after the process is completed. Careful tracking of corresponding concessions must take place. Should trading partners fail to implement agreed-upon concessions, the U.S. must reserve the right to unilaterally withdraw its concessions.

I commend the Committee for its willingness to carefully consider the outlook and negotiating objectives for the new multilateral round and for this opportunity to provide comments.

SENATOR FRANK H. MURKOWSKI

TESTIMONY TO THE SUBCOMMITTEE ON INTERNATIONAL TRADE

SENATE FINANCE COMMITTEE

MAY 14, 1986

CHAIRMAN DANFORTH AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO BE WITH YOU THIS MORNING. I AM HAPPY TO TESTIFY ON S.1865, A BILL THAT I HAVE COSPONSORED. THE IMPORTANT PURPOSE OF THE BILL IS TO ESTABLISH A NEW ROUND OF GATT TRADE NEGOTIATIONS.

FROM 1948 TO THE PRESENT, THE GENERAL AGREEMENT ON TARIFFS AND TRADE HAS BEEN A MAJOR FACTOR IN THE WORLD'S SUBSTANTIAL TRADE GROWTH. IT PROVIDED THE FRAMEWORK FOR NEGOTIATING TARIFF CONCESSIONS AND RESOLVING TRADE ISSUES. OVER THE PAST 38 YEARS, GATT MEMBERSHIP HAS INCREASED FROM ITS ORIGINAL 23 SIGNATORIES TO 90 NATIONS, WITH ANOTHER 31 NATIONS USING GATT PRINCIPLES TO CONDUCT THEIR TRADE POLICIES.

IN AN IMPORTANT SENSE, GATT IS THE INTERNATIONAL TRADING SYSTEM. BUT IT IS EQUALLY OBVIOUS THAT THIS INTERNATIONAL SYSTEM IS FLAWED, SOME WOULD SAY SERIOUSLY. AS CHAIRMAN OF THE TASK FORCE ON INTERNATIONAL TRADE POLICY, I HAVE HEARD STRONGLY ADVERSE REACTIONS TO THE INTERNATIONAL TRADING SYSTEM. LEADERS OF

FORTUNE AND SERVICE 500 FIRMS TOLD ME THEIR VIEWS ON GATT IN A RECENT SURVEY.

THE FIRST AREA OF DIFFICULTIES CONCERNS IMPORT RESTRAINTS, SUBSIDSIES, DUMPING, GOVERNMENT PROCUREMENT, AND TECHNICAL STANDARDS. THE SECOND SET OF PROBLEMS CONCERNS AREAS ON WHICH GATT IS SILENT, SUCH AS THE SERVICES SECTOR, FOREIGN DIRECT INVESTMENT, AND INTELLECTUAL PROPERTY RIGHTS. I BELIEVE WE SHOULD PUSH VIGOROUSLY TO HAVE THESE ISSUES INCLUDED IN THE NEW ROUND, AND IT IS FOR THIS REASON I HAVE COSPONSORED S.L865.

GATT "CODES" REGULATE NON-TARIFF BARRIERS TO TRADE, BUT INCREASINGLY THEY ARE INEFFECTIVE, SAY U.S. EXPORTERS. FIRST, THE SUBSIDIES CODE HAS NOT LIMITED BOTH EXPORT AND DOMESTIC SUBSIDIES ON INTERNATIONAL TRADE. A GATT INFRINGEMENT AFFECTING US IN THE PACIFIC NORTHWEST IS CANADIAN SUBSIDIZATION OF LUMBER PRODUCERS. THEY CAN BUY GOVERNMENT-OWNED TIMBER AT CUT-RATE PRICES. SECOND, WHILE GATT CONDEMNS DUMPING, IT GOES ON NONETHELESS. A FLOOD OF MICROCHIPS, AUTO PARTS, MOTORCYCLES ENTERS OUR MARKET. BUSINESS LEADERS ALSO TELL US THAT DOWNSTREAM DUMPING IS AN INCREASING PROBLEM, AND GATT RULES PROVIDE NO REMEDY.

THIRD, FOREIGN GOVERNMENT PROCUREMENT PRACTICES DISCRIMINATE AGAINST U.S. COMPETITORS. THESE "REQUIREMENTS", EXCLUDE U.S. FIRMS FROM IMPORTANT MARKETS. FOR EXAMPLE, JAPAN HAS CUT FOREIGN FIRMS OUT OF COMPETITION FOR CONSTRUCTION OF THE $5 BILLION KANSAI AIRPORT. (THIS IS A SUBJECT I SHALL EXAMINE AT A HEARING OF THE EAST ASIA AND PACIFIC SUBCOMMITTEE OF THE

SENATE FOREIGN RELATIONS COMMITTEE ON JUNE 5TH.) FINALLY, STANDARDS AND LICENSING PROCEDURES DISCRIMINATE AGAINST FOREIGN COUNTRIES' PRODUCTS. THE GATT STANDARDS' CODE SHOULD APPLY TO THESE AREAS, BUT IT DOESN'T, AND U.S. FIRMS LOSE MARKET ACCESS.

U.S. EXPORTERS ARE NOT PLEASED ABOUT SETTLEMENT OF DISPUTES ARISING UNDER GATT RULES. SOME BLAME U.S. OFFICIAL ACTION. MOST, HOWEVER, COMPLAIN OF PARALYSIS OF THE GATT PROCEDURES, A PARALYSIS THAT SHOULD BE CORRECTED. IT OFTEN TAKES THREE YEARS FOR ACTION, AND THAT IS EXCESSIVE. ALSO, THE MEANS FOR SETTLING DISPUTES NEEDS STRENGTHENING.

OTHER COMPLAINTS ABOUT GATT CONCERN LACK OF COVERAGE OF SERVICES, INVESTMENT, AND INTELLECTUAL PROPERTY RIGHTS. I HAVE PERSONAL KNOWLEDGE OF THE SERVICES PROBLEM AS A FORMER BANKER, AND CAN CITE CHAPTER AND VERSE ON THE DIFFICULTY OUR AMERICAN BANKING INDUSTRY HAS AS IT COMPETES FOR THE LUCRATIVE BANKING SERVICES MARKETS OF ASIA AND EUROPE. DURING THE U.S.-JAPAN SERVICES TRADE HEARINGS I CONDUCTED OVER THE PAST YEAR, I LISTENED TO A LITANY OF PROTESTS ABOUT DISCRIMINATORY BUSINESS PRACTICES. NONE OF THESE IS CURRENTLY ACTIONABLE UNDER GATT.

THE INTELLECTUAL PROPERTY U.S. FIRMS HAVE IN PATENTS, COPYRIGHTS, AND TRADEMARKS LACKS GATT PROTECTION. FILMMAKERS, AUTHORS, INVENTORS, MANUFACTURERS--NONE IS SECURE IN THE PRODUCTS OF THE MIND WHEN THEY ARE TRADED ABROAD. THIS PUTS IN QUESTION THE FUTURE GROWTH OF OUR INDUSTRIAL AND SERVICE INDUSTRIES.

FLAWS IN THE GATT NEED TO BE REMEDIED, AND PROVISIONS OF S.L865 ARE A START IN THE RIGHT DIRECTION. BUSINESS LEADERS TELL ME A NEW GATT ROUND IS NEEDED NOW, AND I AGREE EMPHATICALLY. CONGRESS SHOULD GIVE THE PRESIDENT THE AUTHORITY TO NEGOTIATE. OF ALL THE TRADE PROPOSALS BEFORE THIS SESSION OF CONGRESS, I BELIEVE WE ARE CLOSEST TO CONSENSUS ON THE CALL FOR A NEW GATT ROUND. DEFINITELY, GATT CODES NEED TO BE TIGHTENED AND RIGOROUSLY ENFORCED. AND, AS I HAVE STATED REPEATEDLY, GATT MUST COVER ALL SIGNIFICANT AREAS OF TRADE, AND IN PARTICULAR TRADE IN SERVICES.

I THANK THE COMMITTEE FOR THIS OPPORTUNITY TO SHARE MY VIEWS ON THE GATT. AS CHAIRMAN OF THE TRADE TASK FORCE, I HAVE COLLECTED VOLUMINOUS MATERIALS. THEY INCLUDE DIRECT OPINIONS AND OBSERVATIONS OF AMERICA'S LEADING EXECUTIVES--WHO ARE FORCEFUL IN THEIR REACTIONS TO FLAWS IN THE INTERNATIONAL TRADING SYSTEM. I WOULD BE HAPPY TO SHARE THESE MATERIALS WITH THE SUBCOMMITTEE, AS IT BEGINS DELIBERATIONS ON THIS CRITICALLY IMPORTANT TOPIC.

TESTIMONY OF
CELIA M. SHERBECK, VICE PRESIDENT, CIVIL AVIATION
AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.
ON
TRADE REFORM LEGISLATION
SUBMITTED TO
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U. S. HOUSE OF REPRESENTATIVES

April 17, 1986

Good morning Mr. Chairman and members of the Subcommittee. My name is Celia M. Sherbeck, and I am Vice President for Civil Aviation of the Aerospace Industries Association of America, Inc. (AIA). With me is Ms. Linda Campanella of Pratt & Whitney Company, a division of United Technologies Corporation. Ms. Campanella is the chairman of, and representing today, the Trade Policies Committee of AIA's International Council.

I am testifying today on behalf of AIA, which represents the nation's major manufacturers of aircraft, aircraft engines, helicopters, spacecraft, missiles, space launch vehicles and their related components and equipment. I appreciate this opportunity to appear before you to discuss the aerospace industry's views and objectives relative to Congressional and Executive branch initiatives to reduce this nation's record trade deficit.

AIA believes the answer lies in promoting U. S. competitiveness at home and abroad, not in closing our market to imports. The aerospace industry is an export-oriented, indeed, export-dependent industry. In 1985, aerospace exports averaged 23 percent of aerospace sales and eight percent of all U. S. exports. The industry employed more than 1.3

million people in 1985. We expect to add 35,000 more men and women to that workforce in 1986. Our industry consistently contributes positively to the U. S. balance of trade. Last year, the industry exported $12.1 billion more than it imported, despite formidable foreign competition in domestic and international markets. Total exports in 1985 were approximately $18.1 billion.

We believe that in the face of record trade deficits the United States -- government and industry together -- should be on the offensive, exporting wherever we can and working to bring down trade barriers wherever they exist. We must reject the temptation of protectionism. Protectionism encourages retaliatory actions by other countries. Protectionism reduces innovation and efficiency because it does not encourage import-injured industries to adjust in ways that make them more competitive. Ultimately, the U. S. consumer pays the price for protectionism. Protectionism undermines the international trade agreements that the United States has worked for decades to foster.

We believe in bolstering, not abandoning, the multilateral trading system embodied in the General Agreement on Tariffs and Trade (GATT). The United States should renew its support for an open international trading system. The United States must remain committed to negotiation to achieve free and fair trade. At the same time, the United States must with as much energy and commitment be willing to invoke international rules when unfair trade practices threaten or impede U. S. competitiveness.

We are pleased to see that many members of Congress have introduced bills to correct the U. S. trade deficit by seeking to promote trade,

rather than restrict it. We support those congressional initiatives that would enhance U. S. competitiveness by:

-- providing incentives for risk-taking and capital formation;

-- promoting research, development and innovation;

-- ensuring that adequate and competitive U. S. export financing is available to match what is available to our foreign competitors;

-- strengthening the multilateral trading and monetary systems;

-- seeking the removal of unfair or illegal foreign barriers to trade; and

-- eliminating unilateral U. S. disincentives to U. S. exports.

We are especially supportive of provisions in such bills that stress United States renewal of its support for an open international trading system -- by negotiations to achieve fair trade.

Trade negotiating authority is a part of almost all the omnibus trade bills pending in Congress. We support a new round of multilateral trade negotiations. We feel that the United States and its trading partners benefitted significantly from the last such round. We welcome a new round, in part, because it will afford us an opportunity to revisit the Tokyo Round agreements some six-plus years after their implementation. I think all signatories have gained important insights after these years of experience with the codes. We have learned, for example, that the codes need strengthening. We've learned where they work and where they don't.

The Tokyo Round resulted in the GATT Agreement on Trade in Civil Aircraft. The Aircraft Agreement is the only sectoral trade agreement negotiated under GATT auspices, so we are unique; there are rules of the

game designed specifically for the civil aircraft sector. Review of the Aircraft Agreement has been an ongoing process over these six years. In 1983, after serious negotiation among signatories, it was agreed to expand the duty-free coverage provided under the Agreement to an additional 25 TSUS (Tariff Schedule of the United States) tariff items. And last month in Geneva, the U.S. government held consultations with representatives of Britain, France and West Germany to improve the application of certain non-tariff barrier (NTB) provisions of the agreement. The aerospace industry supports these consultations as a means to strengthen the discipline and improve the enforcement of the non-tariff barrier provisions, particularly with respect to government subsidies and government involvement in the marketplace. The ongoing process of review and consultation allows periodic improvements as necessary to reflect changes in the international marketplace for civil aircraft and parts, whether or not a new round occurs.

In a new round there are a number of objectives we should pursue. We strongly urge the U. S. government to seek to expand the number of signatories to the Aircraft Agreement, particularly to include aircraft-producing and aircraft-trading nations that have not yet signed. Because of U.S. Most Favored Nation policies Australia, Brazil, Indonesia and Israel enjoy the Agreement's benefits without having to assume any of its obligations.

We would also urge U. S. negotiators to pursue reform of Article XVIII of the GATT, which authorizes "infant industry protection" but without rules for removal of that protection when the industry being protected competes successfully in the marketplace. The concept of "sectoral graduation" is one which we urge the Administration to promote.

Aerospace Industry representatives have already begun to work with the Executive branch in developing specific objectives a new round. We are hopeful that improvements will be made to other Tokyo Round codes, including the Subsidies, Antidumping and Government Procurement Codes. An issue that affects all codes, and GATT agreements past and future, is dispute settlement. The aerospace industry agrees that dispute settlement should be a priority agenda item for a new round. The process must be strengthened and streamlined, if the GATT system is to maintain its credibility and relevance.

With respect to logistics, AIA would urge strongly that U. S. negotiators be authorized to send back to Washington self-contained agreements for approval as they are concluded, rather than having to hold them hostage to the final product. Some issues will be resolved early in the round; others will take far longer. Improvements to the Tokyo Round codes, for example, could be negotiated and concluded early in the new round, whereas negotiation of new disciplines for trade in services or investment, for instance, can be expected to be quite protracted. From our perspective, if improvements to the Agreement on Trade in Civil Aircraft are concluded early in the round, we request that the Administration be in a position to seek congressional approval and to implement the changes prior to the formal conclusion of the round -- five or ten years down the road.

Mr. Chairman, in closing I would like to note that in addition to my written testimony, I would like to submit for the record a copy of an AIA publication entitled "Trade and R&D Policies". This document outlines in greater detail than my remarks today the aerospace industry's proposals

for fiscal and monetary policies, continuing multilateral negotiations, and effective trade and R&D policies. The theme of that paper, however, is the same as the theme of my remarks, namely, that the United States can protect its interests by promoting its traditional strengths, and that our long-term national goal should be to remain competitive in the world market for decades to come.

As AIA concluded in that document, the role of the United States as a leader of the free world will be enhanced by enactment of policies that deal effectively with the real causes of the trade deficit, rather than politically expedient policies that deal only with the symptoms. That is the challenge that faces the Congress today.

Thank you very much, Mr. Chairman. I would be pleased to answer any questions you or other members of the Subcommittee may have.

STATEMENT OF SENATOR SASSER

JOINT BANKING/FINANCE SUBCOMMITTEE HEARING

MAY 14, 1986

IT'S A TELLING COMMENTARY ON THE SITUATION WE FACE TODAY THAT THIS JOINT HEARING IS BEING CONDUCTED. IF EVER THERE WAS A TIME WHEN TRADE AND INTERNATIONAL MONETARY POLICY COULD BE CONSIDERED SEPARATELY, THAT TIME IS LONG PAST.

WE WITNESSED THE DEVASTATION OF MAJOR SECTORS OF OUR DOMESTIC ECONOMY AS A RESULT OF THE DOLLAR'S MISALIGNMENT AND OF HIGH INTEREST RATES ON A GLOBAL SCALE. TODAY'S TRANSPORTATION AND COMMUNICATIONS CAPABILITIES HAVE LED TO A TRUE INTERDEPENDENCE AMONG THE WORLD'S ECONOMIES.

IT WAS ALSO A VERY TELLING COMMENTARY ON THE SITUATION WE FACE TODAY THAT THE TOKYO ECONOMIC SUMMIT SEEMED TO FOCUS MORE ON THE THREAT OF TERRORISM AND THE DANGERS OF MODERN TECHNOLOGY. AMERICAN CITIZENS IN EVERY ONE OF THE STATES REPRESENTED BY MEMBERS AT THIS HEARING HAVE CANCELLED TRIPS ABROAD, OUT OF FEAR OF TERRORIST ACTIVITY. AND THEY HAVE WONDERED, IN EVERY ONE OF OUR STATES, WHETHER THE FALLOUT FROM THE RADIOACTIVE CLOUD GENERATED AT CHERNOBYL WOULD AFFECT THEM, THEIR CHILDREN, THEIR FOOD AND WATER, THEIR LIVES FOR YEARS TO COME.

THERE IS NO ISOLATED ACTION ANY MORE.

THE LIVES OF THE PEOPLE IN OUR STATES ARE LIKEWISE AFFECTED, FOR GOOD OR ILL, BY DECISIONS MADE IN THE WORLD ECONOMY. THEIR ACCESS TO JOBS, TO EDUCATION, TO A SECURE FUTURE

DEPEND TO A GREATER AND GREATER DEGREE ON HOW WELL WE FUNCTION IN A GLOBAL ENVIRONMENT.

THE LEADERS OF THE SEVEN LARGEST INDUSTRIAL COUNTRIES MET IN TOKYO TO ADDRESS THESE ISSUES. THE LEADERS OF THE UNITED STATES, JAPAN, BRITAIN, WEST GERMANY, FRANCE, ITALY AND CANADA WERE ABLE TO REACH CONSENSUS ON "ISOLATING" NATIONS THAT SPONSOR WORLD TERRORISM. THERE WAS WIDESPREAD CONSENSUS ON THE TERRIBLE FAILURE OF THE SOVIET UNION ADEQUATELY TO PROTECT ITS OWN CITIZENS OR TO WARN THEM AND THEIR NEIGHBORING COUNTRIES ABOUT THE DANGERS OF CHERNOBYL. THESE EVILS ARE RELATIVELY CLEAR-CUT. THE ECONOMIC ISSUES ARE NOT.

WORLD TRADE, THE INTERACTION OF THE WORLD'S CURRENCIES, ITS MANUFACTURED GOODS, ITS SERVICES, ITS MARKET FORCES, REQUIRES THE SAME ATTENTION AND COOPERATION THAT THE SEVEN INDUSTRIAL NATIONS WERE ABLE TO MUSTER WITH REGARD TO THE TERRORIST THREAT. TOWARD THIS GOAL, ADDRESSING THE QUESTIONS OF LOWERING TRADE BARRIERS, OPENING UP FOREIGN MARKETS AND TRULY CREATING A FREE, FAIR WORLD MARKETPLACE, THE SUMMIT MADE ONLY TOKEN GESTURES. THIS, AGAINST A BACKDROP OF A $150 BILLION TRADE DEFICIT IN THE PAST YEAR, AND A PRESENT RATE THAT, ANNUALIZED, COULD LEAD TO A $170 BILLION TRADE DEFICIT IN 1986.

THE UNITED STATES CANNOT CONTINUE TO BE THE ONLY ADVOCATE OF FREE TRADE IN THE WORLD MARKETPLACE. THE TOLL IT TAKES ON OUR PRODUCTIVE CAPACITY IS MORE THAN WE SHOULD ASK OUR PEOPLE TO PAY. SOME ESTIMATES INDICATE THAT, OVER THE PAST FEW YEARS, WE HAVE EXPORTED 2 TO 3 MILLION JOBS OVERSEAS. LESTER THUROW HAS CALCULATED THAT BETWEEN 1980 AND 1985, THE RISE IN IMPORTS DROVE

THE WAGES OF 300,000 AMERICANS BELOW $12,500 PER YEAR. IN MY STATE OF TENNESSEE ALONE, WE HAVE LOST SOME 50,000 MANUFACTURING JOBS IN THE LAST 5 YEARS TO IMPORTS AND A LOSS OF EXPORT CAPACITY.

THE ECONOMIC SUMMIT DID LITTLE TO HALT THIS EROSION OF OUR MANUFACTURING BASE, OR TO HELP US KEEP FROM SHIPPING SOME OF OUR BEST MIDDLE-INCOME JOBS OVERSEAS. WE DID NOT GET AN AGREEMENT FROM JAPAN OR WEST GERMANY TO TAKE STEPS TO BOOST THEIR ECONOMIC GROWTH RATES TO PULL IN ADDITIONAL U.S. EXPORTS. WE DID NOT GET THE FIRM DATE WE SOUGHT FOR ANOTHER ROUND OF GATT TALKS. AND WE DID NOT ACHIEVE ANY AGREEMENT ON WAYS TO HEAD OFF THE EUROPEAN COMMUNITY'S PLAN TO RESTRICT IMPORTS OF CERTAIN U.S. FARM PRODUCTS ... A PLAN THAT WILL INTENSIFY WHAT HAS ALREADY BEEN A CATASTROPHIC YEAR ON THE AMERICAN FARM.

IN SHORT, WE SAW NO REAL PROGRESS IN TOKYO TOWARD CHECKING OUR TRADE DEFICIT AND REBUILDING THE SOLID FOUNDATION OF OUR ECONOMY.

WITHOUT THAT PROGRESS, WE ARE GOING TO BE EVER MORE VULNERABLE TO THE PROBLEMS IN OUR OWN HEMISPHERE. THOSE PROBLEMS, UNDER THE RUBRIC OF "LATIN AMERICAN DEBT," ARE INTIMATELY CONNECTED WITH OUR UNMET GOALS IN TOKYO. I THINK THE AGRICULTURAL SECTOR PROVIDES A VERY INSTRUCTIVE EXAMPLE OF THESE INTERRELATIONSHIPS.

A STAFF STUDY PRODUCED BY THE JOINT ECONOMIC COMMITTEE, RELEASED ON FRIDAY, DESCRIBES THE IMPACT ON LATIN AMERICAN ECONOMIES OF REPAYING THEIR SPIRALLING DEBT. FORCED INTO A DRAMATIC EXPANSION OF EXPORTS, TO EARN THE HARD CURRENCY TO PAY

SASSER STMT

THESE DEBTS, THEY HAVE FLOODED WORLD MARKETS WITH AGRICULTURAL PRODUCTS. THE RESULTING DECLINE IN PRICES HAS BEEN A MAJOR CONTRIBUTOR TO OUR FARM PROBLEMS IN THE UNITED STATES. WITH FARM FORECLOSURES AND BANKRUPTCIES HITTING HISTORIC RATES, WITH AGRICULTURAL BANKS FAILING AT RECORD RATES, THE ADMINISTRATION'S RESPONSE HAS BEEN TO ENCOURAGE MORE DEBT AMONG LATIN AMERICAN NATIONS.

AMERICAN FARMERS RELY ON WORLD MARKETS TO CONSUME ABOUT 40 PERCENT OF THEIR OUTPUT. YET, FROM AN HISTORIC PEAK OF $43.8 BILLION AND 162 MILLION TONS, OUR OVERSEAS FARM SALES ARE PROJECTED TO DROP TO $29 BILLION AND 120.5 MILLION TONS THIS YEAR. OUR FARMERS ARE FACING DIRECT COMPETITION FROM OUR LATIN AND SOUTH AMERICAN NEIGHBORS.

LOOK AT SOYBEANS. SOYBEANS WERE THE LEADING CASH CROP IN TENNESSEE UP UNTIL 1984. AT ITS PEAK IN 1979, HARVESTED ACRES OF SOYBEANS REACHED 2.6 MILLION ACRES. IN 1985, ONLY 1.5 MILLION ACRES WERE HARVESTED, A 42% DECLINE FROM 1979. WHILE THE UNITED STATES' MARKET SHARE OF SOYBEAN EXPORTS WAS OVER 90% IN THE EARLY 1970'S, IT IS NOW SLIGHTLY OVER 80%. SINCE 1981, U.S SOYBEAN EXPORTS HAVE FALLEN 36%, OR BY 9 MILLION METRIC TONS. AND MEANWHILE, BRAZILIAN SOYBEAN EXPORTS WERE QUADRUPLING AND ARGENTINA'S WERE DOUBLING. TOGETHER THEY NOW CONSTITUTE 27% OF THE WORLD SOYBEAN MARKET, UP FROM ONLY 9% THREE YEARS AGO. IF OUR MARKET SHARE FOR SOYBEANS IS UP THIS YEAR, IT IS ONLY BECAUSE A DROUGHT IN BRAZIL HAS DRAMATICALLY REDUCED ITS SOYBEAN CROP.

WHEN WE PASSED THE FARM BILL LAST YEAR, WE HAD HIGH HOPES THAT BY REDUCING OUR LOAN RATES WE WOULD INCREASE OUR AGRICULTURAL EXPORT COMPETITIVENESS. HOWEVER, THE NEW BAKER PLAN COULD NEGATE ANY GAINS WE MIGHT MAKE UNDER THIS FARM BILL. THE JOINT ECONOMIC COMMITTEE REPORT POINTS OUT A GOOD EXAMPLE OF A LIKELY ADVERSE EFFECT. THE WORLD BANK RECENTLY ANNOUNCED A $350 MILLION LOAN TO ARGENTINA, STRESSING THAT THIS LOAN WAS PROOF THAT THE BANK CAN DISPENSE ITS SHARE OF THE MONEY CALLED FOR IN THE BAKER PLAN. HOWEVER, THE LOAN IS CONTINGENT ON ARGENTINA REDUCING ITS TAX ON AGRICULTURAL EXPORTS IN ORDER TO EXPAND THE AMOUNT OF LAND DEVOTED TO WHEAT AND SOYBEAN PRODUCTION. THE WORLD BANK'S OWN PROJECTIONS STATE THAT THIS WILL ENCOURAGE ARGENTINE FARMERS TO BOOST AGRICULTURAL EXPORTS, SOYBEANS INCLUDED, BY AS MUCH AS 6.5 MILLION METRIC TONS.

MR. CHAIRMAN, I AM VERY CONCERNED THAT THE BAKER PLAN WILL LEAD TO FURTHER DECLINES IN INTERNATIONAL COMMODITY PRICES AND U.S. FARM EXPORTS. I DON'T BELIEVE THAT OUR FARMERS SHOULD, OR CAN, FACE MUCH FURTHER EROSION OF THEIR EXPORT MARKET. I WOULD LIKE TO ASK SECRETARY BAKER A FEW QUESTIONS.

THANK YOU.

STATEMENT
of

Donald W. Bedell
of
BEDELL ASSOCIATES

to the
International Trade Subcommittee
of the
Senate Finance Committee

in the matter of the
Trade Enhancement Act of 1986

May 14, 1986

Mr. Chairman, I welcome this opportunity to present my views on the need for substantial reform of U. S. trade laws, and, for a fresh new approach to achieving maximum advantage for all Americans from the international exchange of goods and services.

As a private sector participant in the negotiations surrounding both the 1974 and 1979 trade acts, it is clear that the Subcommittee's draft is a superb legislative effort. It tightens and simplifies procedures for the redress of legitimate grievances by American industry. It also re-defines key legal and trade terms. Both are essential to reduce loopholes left in the 3 previous major trade bills. Several specific recommendations will be made in my concluding comments.

There is, however, grave doubt in my mind whether conformance by our trading partners with the principles of "fair" or "free" trade can ever be achieved solely by fine-tuning legal language. In view of their long histories of nationalistic international trade policies, and the record to date, the evidence clearly requires a negative verdict.

Never in commercial history has so much irrelevant nonsense been written, by so many economists in the post-World War period, about so ephemeral and unrealistic a goal as "free trade."

If the debate here is ultimately framed to identify and measure which country is more or less "free trade" oriented, and which is more "protectionist" oriented, the result will once again be a failure to meet the legitimate needs of major segments of American industry. Such a debate cannot succeed because achievement of such a visionary goal, on the 500 year record of international commerce, is simply unattainable in the nationalistic world of international trade.

Some still deny that international trade policy continues to be based exclusively on national economic self-interest as each nation perceives it. History clearly lays bare the fact that the policy of each nation typically constitutes a blend of divergent policies. When a theory like "free trade" comes along policymakers examine it for its "fit" with national objectives. Parts of the Adam Smith dream have been used here and there, and now and again. But, no country has ever adopted a policy of "free trade" as a national policy.

Neither is there much room for broad adherence to a "rule of law," in international trade as is envisioned by the failed GATT process. At most, a multi-lateral trade negotiation concensus can only serve as a guideline. Thus, the perception that any new MTN will ring in a new era of comity and the "rule of law" in the international trade arena is clearly doomed.

If then, the esoteric dream world of a "free trade" regimen is the antithesis of a historic nationalistic drive, the present policy foundation for international trade lacks solid foundation. A new

framework to guide the activities of international trade, must therefore be formulated.

What's the evidence that national self-interest still powers trade movements?

In Europe modern commerce appeared in the late 13th century; a shorter but not different record for Japan. From those early days of intimate government-industry partnerships, world commercial and political history up to World War II has been one long blur of brutal wars, and predatory "beggar-thy-neighbor" trade policies. It's no wonder that no single nation, or combination of nations, in all history, ever attempted to achieve any world order for trade until the American initiative in post-World War II.

In its quest for structural solutions to post-World War II international trade conflicts, America has not once asked the single question that now more than ever needs desperately to be asked. How much has the international commercial world changed from its centuries old customs in the short 40 years following World War II?

This failure was America's first major policy mis-calculation.

In 1945 Europe and Japan lay in ruins. Their political focus was simple and natural. Economic recovery. Without objection from America the obvious course was to re-build on their historic internal commercial policies. Adam Smith had no role in that process.

The U. S. might have influenced a re-structuring of the basic economic foundations of Europe and Japan. It made no attempt. European countries, and Japan, felt no need to dismantle their own historic intimate commercial government-industry apparatus. In the absence of any external influence or incentives, old government-industry

partnership systems, simply and automatically returned. Laws permitting cartels and monopolies were left intact. Pre-War commercial leadership returned to implement traditional policies.

Against that background a new concept like the GATT proposing as it did a free and open trade was understandably received with some curiosity, a certain reluctance, and great wonderment. Turning their backs on habits of several hundred years to committ to some brand new concept required a miracle.

History reveals that miracle has not arrived.

For example, the EC-9 or 10 (now 12). Despite repeated claims of "liberalisation" for the past 40 years, the Community ranks with Japan and most developing countries, both as a tightly import controlled trading bloc and an imaginative supporter of aggressive subsidized export policies.

The European Community has since its beginning applied quotas on most imports including autos, electronic goods, plastic products, coal, steel, textiles, machinery, apparel, and a wide range of agricultural products including wheat, feed grains and specialty crops. The best contemporary example of these controls is the elimination of 2 million tons of corn exports from the U. S. to Spain and Portugal with their accession to the Community. Its notorious export subsidy programs not only for agriculture but for manufactured goods is little more than an extension of practices born hundreds of years ago and given new names.

The fact is that, by 1965, trade among Community nations bore the same percentage one to the others as for the last few years before the outbreak of World War II. Trade with their former major partners had

also returned to traditional patterns. Trade with their former colonies was also restored to pre-war percentages through tight bi-lateral agreements, as for example, the Lome Convention. Thus, trade patterns formed for generations under strict control are back in place despite claims of liberalization, MTN negotiations and the GATT!

The import controls applied by Japan, Taiwan, South Korea, and most other trading nations have been well documented in many authoritative studies and need no confirmation here. The same is true for export subsidies and assorted other unfair or illegal government support programs.

Without doubt, the trading world the U. S. has always faced is a complicated but carefully balanced scheme of exports and imports which best serves the domestic interests of an individual nation or trading bloc. No allegiance by any of those nations to an over-arching theory like "free trade" is discernible in any of the policies applied by most nations of the world, then or now. The days of the little English weaver trading goods in return for a jug of Portuguese wine are long gone.

The evidence makes clear the massive assault on U. S. markets beginning in the middle 1960s did not represent the triumph "free market forces." It was instead the direct result of historic and traditional but finely tuned export policies of its trading partners. The ancient government-industry partnerships which allowed cartels and monopolies and granted subsidies became a formidable market invasion machine. Combined with grudging and slow concessions on a limited range of imports, the U. S. was left with an indefensible $130 Billion

trade deficit in 1984.

If such control represents the trade world U. S. faces then on what basis can continued Don Quixote-like pursuit of the impossible dream of "free trade" ever yield results acceptable to all of America?

Was the 1962 Trade Expansion Act a success? No. American leaders were pre-occupied with achieving tariff reductions during the MTNs leading up to passage of the act. But, by that time import barriers were being shifted to so-called non-tariff barriers. Only during the late 1960s did it occur to American trade leadership that "NTBs" were excluding U. S. goods from major overseas markets in alarming numbers. By the time the 1974 Trade Act was passed, the foreign assault on American markets was in full swing, but the legal language, and the structure of government, was hopelessly inadequate. Much of the debate then was over legal procedures to be relied on to stem the greatest tide of imports America had ever witnessed. Those procedures haven't worked either, else this debate would be without purpose.

The same numbed American response characterized the MTNs leading up to passage of the Trade Agreements Act of 1979. Only then, the debate revolved around tidying up the loopholes foreign producers had uncovered, and once more ignored the reality of the overwhelming power of the government-industry partnerships in overseas countries. Essentially the so-called "targetting" phenomenon came to be the new buzz-word to describe what had always been their basic strategy, and discovered no statute reached such a practice! The very essence of government-industry partnership has always involved targetting and co-ordination of export penetration.

It must be clear to all that efforts to outwit overseas governments

and industries through monumental efforts at legal language refinement have not, and indeed probably cannot, match the resourcefulness of government-industry partnerships overseas. No single major U. S. corporation can be expected to compete sucessfully with an important sovereign nation acting in concert with all the members of a given industry; either in the U. S., or in third countries.

Mr. Chairman, S. 1860 is a worthy advance in tightening procedures and clarifying definitions in U. S. trade law. All the same, the language of Title I, Section 101, Findings, suggests the existence of a world where "free market forces" do not now exist, and perhaps never did exist. If existing law, and international agreements, were constructed to insure "maintenance of a fair and open world trading system," how then can amending existing law achieve vital domestic objectives when they have failed using the same formula since 1962, or 24 years ago? Is it a time for fundamental change in strategy?

With reference to national objectives, permit me to pose several questions.

1. Do we have a grasp of what Americans can and should expect from international trade in terms of an improved quality of life?

2. Is there a calculated percentage of domestic consumption that should be filled by imports, product by product? All of it? None of it? Is the foreign price the sole determinant?

3. Is America better off trading with friendly countries rather than unfriendly countries?

4. Should Americans require their government to protect them from poor products or foreign cartels who might destroy a domestic market for their own benefit?

5. Should any country knowingly allow itself to be stripped of its industrial base by any means chosen by its trading partners?

6. In the current world, what are the rewards for becoming a consuming, service based country?

7. Is the floating exchange rate theory designed to redress trade imbalances dead at last?

8. Why is international trade more controlled, or managed, around the world than ever before in all modern history?

Providing answers to these questions constitute an enormous challenge. Renewed modification of domestic trade laws might provide the guidance needed to steer an American course toward "free market forces."

Yet, despite the great harm Economic Nationalism has caused throughout history, the evidence clearly reveals it is alive and well. There remains little room for acceptance of any international "economic man" concept to which individual nations and their citizens pay supreme and enduring homage. Let's acknowledge that the ideal of "free market forces" does not exist and cannot exist, and deal with international economic reality.

What does that mean specifically in terms of S. 1860?

First, provide for the establishment of a national budget for international trade by SIC code, complete with forecasts 3, 5 and 10 years into the future. Americans know best what's in their interests. Such decisions about imports should not be left to foreign nations because that robs Americans of their right to choose their own destiny.

Second, include in your bill provision for establishing a minimum

and maximum import quota (based on numbers or tariffs to achieve similar results) for each major SIC code, based on a percentage of apparent consumption. A White House Council of just 5 members and the Congressional Budget Office frame the debate with budgets of their own. Quotas can be set with individual nations, by negotiation and could be adjusted periodically as competitive conditions warrant.

Third, ensure applicability of the present provisions of S.1860 to all products not included in a quota, and to that share of the U. S. market permitted foreign companies.

Fourth, provide for assurance that no new MTN round takes place without the establishment of a "Big-5" nation Economic Security Council with power to make changes in the GATT, subject only to a veto by a 2/3 vote of all GATT members.

Fifth, mandate that the Bretton Woods floating exchange rate is no longer valid and declare that U. S. adherence to it is null and void. In its place authorize U. S. participation in a "Big-5," or "Big-7" nation group to assume leadership of international exchange rates, as has been achieved in the last 6 months with Secretary Baker's initiatives.

Sixth, provide for a national forum in which all aspects of international trade policy, including the Federal Reserve's functions, can be debated on a national scale, in advance of decisions made to adjust quotas every 2 or 3 years.

Mr. Chairman, I believe there is an overwhelming need for Americans to participate on a far broader scale in decisions affecting their quality of life. Not all segments of the population now have that opportunity. Such decisions are far too frequently made by foreign

countries, and companies, for reasons which are solely in their self-interests.

The concepts here take into account that each country continues to operate its international trade function with an economic agenda. While these agendas can be negotiated, it provides a specific structural framework for fruitful negotiation.

My hope is that the U. S. will develop its own international economic agenda in very specific terms as earlier outlined. When that day emerges, the nation can at last rid itself of the meaningless and tiresome slogans like "free trade" and "protectionism." Americans can then debate in public what kinds of products are most apt to improve their quality of life without participation by foreign companies, and before the government is permitted to make its decision.